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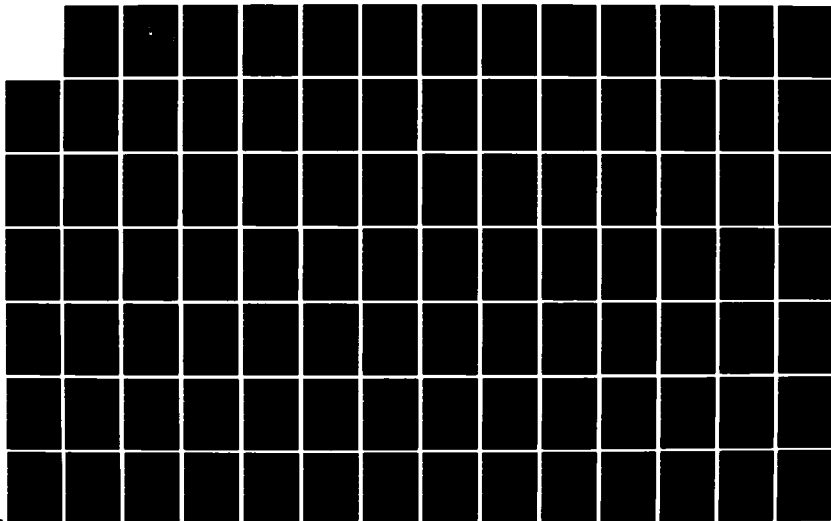
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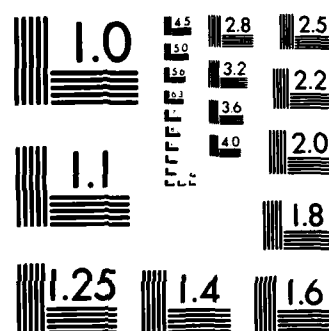
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THE ECONOMY OF ROMANIA:
HOW IT COMPARES TO OTHER CENTRALLY-PLANNED
ECONOMIES IN EASTERN EUROPE

by

Grace Marie Charney

June 1984

Thesis Advisor:

D. P. Burke

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Useful definitions, tabular examples of Romanian trade, graphic displays of economic features, and the text of the 1975 Helsinki Agreement which galvanized East European dissent movements are included in the appendices.

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The Economy of Romania: How it Compares
to Other Centrally-Planned
Economies in Eastern Europe

by

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Captain, United States Air Force
B.S., Slippery Rock State College, 1971

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

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ABSTRACT

This paper is an examination of the Romanian economy. It begins with a basic description of socialist economies, outlining characteristics and procedures common to many socialist economies. For purpose of comparison, the next section cites recent economic information on Eastern European socialist countries other than Romania.

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I. INTRODUCTION

The Warsaw Pact countries of Eastern Europe--Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania--have figured prominently in the history of the twentieth century. Events involving one or more of these countries have twice erupted into world wars. In both instances, strong nationalistic sentiments were key elements, providing both the fuel and the spark for massive upheaval.

In the years since World War II, purely nationalistic fervor which led to bitter inter-nation rivalries and military conflict between the countries appears to have waned. Economic issues now predominate. It would be a mistake, however, to presume that the potential for major disruption in the area has similarly declined.

On the contrary, this potential has probably increased. The peoples of the Eastern European bloc countries now have a common, yet individualized, cause around which to rally--reform of the centrally-planned economies to provide higher standards of living. Nationalistic identities as well as cultural and ethnic characters are evident in the different approaches to reform in each country.

Since any reform movement in Eastern Europe is a direct challenge to the pre-eminence of the Communist Party within each country, it is also, either directly or indirectly, a

threat to the Soviet Union's hegemony in the region and to the legitimacy of Communist totalitarianism in the Soviet Union itself. This is a situation which the Soviet Union will not tolerate. Soviet military interventions in East Germany in 1953, in Hungary in 1956, and in Czechoslovakia in 1968 crushed reform movements which jeopardized the existing political and economic order in these countries. They clearly demonstrate the importance the Soviet Union places on stable, Communist regimes in Eastern Europe and the extreme measures it is prepared to take to preserve the status quo in Eastern European countries.

The situation in Poland since 1979 is the most recent example of the dilemma of Eastern European bloc countries with regard to economic reform. The emergence of the Solidarity trade union, its demands for relaxation or elimination of government controls, its persistent threats of work slowdowns or strikes, and its efforts to become involved in the legislative functions of the government exceeded the limits of Soviet tolerance. Fear of Soviet intervention was probably the major factor contributing to the imposition of martial law in Poland in December 1981 and the outlawing of Solidarity as a legitimate, recognized voice of the workers. While martial law and the subsequent repressive measures against dissident activity may have reduced the imminent danger of Soviet military action against Poland, they have done nothing to correct the underlying causes of popular

dissatisfaction with the economic conditions that gave rise to the Solidarity movement.

In commenting on the events in Poland, Western media reports speculate on the development of similar economic conditions and socio-political turmoil in other Communist-ruled countries of the Eastern European bloc. Romania is often cited as the country most likely, after Poland, to be incapable of meeting the current economic needs of its citizens. In some cases, Romania has been characterized as a parasitical country, expected to renege on the repayment of its outstanding debts to Western banks and organizations.

This is an unfair judgment. The Romanian economy demonstrated considerable growth over the past decade, and the Romanian record of loan repayment, until recently, was good. It is only in the wake of developments in Poland, and in light of shallow comparisons of the two countries--basically noting that both have centrally-planned economies and therefore share common deficiencies--that Romania's ability and willingness to meet its scheduled repayments to the West have come into question.

This is not to say that Romania has no economic problems. On the contrary, Romania faces serious difficulties. Its standard of living is among the lowest in Eastern Europe; shortages in basic necessities are acute; food lines are common. Efforts to create economic ties with the West were seriously affected by the worldwide recession. Export markets

that drastically declined in the late 1970's are slow to be reestablished in the wake of the ongoing Western recovery.

Unlike other Eastern European bloc countries, Romania cannot rely on subsidies or assistance from the Soviet Union to offset the effects of the Western recession on its economy. In fact, Soviet actions exacerbate the problem. Romania has often deviated from or openly opposed Soviet policy in matters of intra-bloc cooperation or foreign affairs. The Soviet Union is now using Romania's past maverick actions as an excuse to cut back on supplies of raw materials, particularly oil that is desperately needed for continued industrial development, or to charge full market prices for these goods. This is in distinct contrast to Soviet policy toward other Eastern European bloc countries.

The combination of these adverse Soviet policies, declining hard currency trade with the West, and, in particular, rising energy costs has had disastrous effects on the Romanian economy. Government promises of better living conditions by the mid-1980's will not be fulfilled.

Romanians can, realistically, expect no positive change in their standard of living in the immediate or foreseeable future. In fact, conditions are more likely to worsen. As this occurs, potential for dissent from the long-suffering Romanian population increases.

Long accustomed to foreign dominance or exploitation, Romanians have, until recently, stoically accepted government

demands for sacrifice in the name of economic progress. Only isolated protests against government policies and economic inefficiencies have occurred.

As the government's self-proclaimed target date for economic prosperity nears, and with no improvement in living conditions likely, Romanian intellectuals have become more outspoken against the regime. Although there is no unified dissent movement and no vehicle like Poland's Solidarity Union to coordinate protests, sporadic and spontaneous demonstrations against the government have increased.

Economically motivated dissent could cause severe political problems for the Ceausescu government. In order to significantly improve Romanian living conditions, fundamental structural and bureaucratic changes must occur; however, such changes risk incurring Soviet action against Romania.

How Romania deals with its problems has serious implications for its relations with the Soviet Union, its Eastern European neighbors, and the West. An understanding of Romania's economic development, goals, and needs could identify opportunities to influence these relationships to the advantage of the United States and our allies.

A logical point from which to develop such an understanding of the Romanian economy is a description of the salient features of centrally-planned economies and an overview of how other Eastern European bloc countries are dealing with common problems and reform measures.

II. NATURE OF CENTRALLY-PLANNED ECONOMIES

Conventional Communists argue that central planning "enables society to overcome both the anarchy of production and the class war inherent in the capitalist mode of production."¹ According to theory, centrally-planned production should be more efficient than the apparently haphazard approach of capitalism. In practice, though, centrally-planned economies have a relatively poor record of "actually calculating and implementing a plan for the efficient allocation of a nation's resources."² Even moderate success is not typical of the entire system; increased efficiency in one sector is invariably at the expense of all other sectors. In fairness, however, centrally-planned economies do tend to work well in backward countries with a pronounced need to "catch up" with industrial societies, but this is true only for the particular area of concentrated effort--e.g., greater production in heavy industries.

Although the Soviet example serves as the model on which all other Communist centrally-planned (or, in conventional Communist usage, "socialist") economies are based, it is not

¹Michael Ellman, Socialist Planning, (New York: Cambridge University Press, 1979), p. 14.

²Ibid., p. 9.

surprising that specific applications of central planning principles vary as widely among the Communist-ruled (or "socialist") states as do those of market economics among "capitalist"³ states. Every country, no matter what its economic orientation, adopts only those economic features which are uniquely suited to its particular needs and circumstances. It is possible, however, to identify general characteristics of planning common to all socialist states.

The three most important elements common to Communist centrally-planned economies are state ownership of the means of production, national economic planning, and political dictatorship. These elements are considered essential in order to achieve maximum control of all the economic resources of the society. The purpose of such control is the systematic pursuit of national objectives, which include "rapid economic growth and in particular rapid industrialization, an egalitarian income distribution, and the development of the armed forces."⁴

³In the interest of brevity, throughout this study, use of the term "socialist" reflects conventional Communist usage for Communist centrally-planned economies and Communist-ruled states. It applies primarily to Warsaw Pact countries and to other Eastern European countries which have Communist governments. It also is used to describe the principles and theoretical applications of central planning. It specifically does not refer to countries which have elements of socialism in their economies but which maintain democratic governments, such as France and Greece. Similarly, the term "capitalist" refers to market economies in non-Communist states.

⁴Ellman, p. 15.

A. BASIC PRINCIPLES OF SOCIALIST PLANNING

The Soviet example provides the following four basic principles, rooted in Marxist-Leninist theory, which are the foundation of central planning in all socialist economies:

First, economic growth is a process in which both forces of production and the relations of production are developed. Therefore socialist planning concerns itself not only with purely production problems, but also with such questions as the ownership of production capability and the distribution of income.

The Marxian definition of forces of production includes all factors of the abstract labor process: 1) labor power and the resulting natural science, technology, human skills inventions, and organization; 2) the subject of labor, which could be soil and water, raw materials or natural resources, or products of labor such as processed ores used in creation of other products; and 3) instruments of labor, which encompass such things as workshops, canals, roads, the earth itself, and, the greatest productive power, the revolutionary class. It is a description of many complex phenomena which permits interpretation as both economic development or the creation of a new class. The term relations of production, according to Marx, refers to relations between men engaged in the productive process--the division of labor and distribution of functions, lines of authority, and employment of technology in the workplace--and, more importantly, property,

or ownership, relations, which are inevitable and independent of the will of men. Property ownership in the Marxist sense makes no distinction between the master to slave and the employer to employee relationships. This is the crux of Marxist arguments in which the particular property form of capitalism is seen to prevent full development of the economic system, human development of the working class, or both. By this definition, production relations inevitably are in conflict with productive forces.⁵

Second, economic growth is a unified process of production, distribution, exchange, and consumption. Of these, the decisive phase is production.

Third, the only source of national income is from labor in the productive sphere. Expansion in the non-productive sphere is possible only on the basis of growth in the productive sphere.

Fourth, under socialism, the growth phase takes place simultaneously in physical and money terms. Planning must be in both physical and monetary units.⁶

B. SPECIFIC CHARACTERISTICS OF SOCIALIST PLANNING

In addition to the basic principles, Soviet-style planning is dominated by eight specific characteristics:

⁵Michael Evans, Karl Marx, (Bloomington, IN: Indiana University Press, 1975), pp. 63-64.

⁶Ellman, pp. 16-17.

1. Partymindedness -- the plan must be a concrete expression of party policy. It must examine all problems from a party point of view and evaluate them accordingly.

2. Directive character -- planning is never suggestive in nature or merely a statement of desired goals. It takes the form of instructions that are binding on all participants in the economy.

3. One-man management -- in each economic unit, one man has the appropriate authority to make decisions and is solely responsible to his superiors for the execution of orders.

4. Scientific analysis -- plans do not embody subjective decisions by one official or organization for selfish motives. They reflect careful examination and consideration of problems that confront the entire society and are designed with the common good in mind.

5. Balance method -- double entry bookkeeping which ensures that all plans are internally consistent.

6. Address principle -- for each target, there is a corresponding organization or agency responsible for oversight of all functions related to achieving the stated goal.

7. Leading links -- at any given moment, the efforts of the planners and the allocation of material and human resources are directed to achieving the planned goals in certain priority sectors of the economy.

8. Commercial accounting -- each economic unit maintains its own profit and loss account. The aims are to stimulate

and encourage efficiency and, at the same time, to prevent waste and bureaucratization.⁷

Over the past three decades, the Eastern European Communist bloc countries have, to some extent, evolved economies that are independent of the Soviet Union; however, they all adhere to these characteristics as theoretical central features of the socialist economy.

C. STRUCTURES AND PROCEDURES IN CENTRAL PLANNING

In keeping with the Soviet model, all centrally-planned economies conform to certain structures and procedures. As a starting point, each has a central planning authority, usually known as the State Planning Commission (SPC). This body is responsible for five specific tasks:

1. determination of the criteria of economic calculation underlying planning decisions;
2. determination and quantification of the targets to be reached in the planned period;
3. co-ordination of the targets to ensure the internal consistency of the plan;
4. determination of appropriate methods to ensure plan fulfillment; and
5. current revision of targets according to changing conditions.⁸

⁷Ellman, pp. 17-19.

⁸M. Pohorile (ed.), Ekonomia polityczna socjalizmu (The Political Economy of Socialism), Warsaw, PWE, 1968, p. 362, cited by J(ozef) Wilczynski, The Economics of Socialism, (Boston: George Allen and Unwin, 1982), pp. 15-16.

The end product of the State Planning Commission's deliberations is the current output plan. This document embodies a variety of information and presupposes broad as well as in-depth knowledge on the part of the SPC. It specifies target production levels for the commodities deemed to be the most important to fulfilling planned goals. The number and type of priority commodities addressed in the plan vary significantly among the socialist countries. The Soviet Union's current output plan contains the largest number of priority commodities, 1000.⁹ Czechoslovakia's plan addresses only 200 commodities; Bulgaria's, 120; and East Germany's, the fewest, 80.¹⁰ Romania's current output plan contains 200 priority commodities.¹¹

To develop the current output plan, the State Planning Commission begins with a statistical analysis of the previous year. It then studies developments in the first six months of the current year and forecasts what will occur in the next six months. Using these data and keeping the basic objectives of the Council of Ministers in mind, the SPC then constructs central figures--tentative, aggregate output targets

⁹Wayne A. Leeman, Centralized and Decentralized Economic Systems, (Chicago: Rand McNally College Publishing Company, 1977), p. 22.

¹⁰Wilczynski, p. 17.

¹¹Andreas C. Tsantis and Roy Pepper, Romania: The Industrialization of an Agrarian Economy under Socialist Planning, (Washington, D.C.: The World Bank, 1979), p. 43.

for the most important commodity groups as well as a list of the major investment targets--for the following year.¹²

Subordinate economic organizations--from highest to lowest, ministries, subministries, and enterprises--use the control figures as a guide and project potential outputs and required inputs to achieve them based on their knowledge and experience. Each level aggregates the input needs from its subordinate organizations and submits these figures to the next higher level. Each ministry submits the compiled data to the State Planning Commission. When the SPC receives the aggregate information, it must balance the supply and demand for each of the commodities.

There are two common methods for balancing supply and demand requirements at the SPC level. The first, material balances for each commodity, is a yearly statement in physical terms of the total demand for and the total supply of a product. A typical example would consider all possible sources of a product (e.g., production capability, imports, and existing stocks at suppliers at the beginning of the period) and all required distribution for the product (e.g., production-operation needs including production inputs and maintenance; construction; market fund; exports; increases in state reserves for national disasters; increases in Council of Ministers reserves for distribution during the year to cover any

¹²Leeman, p. 22.

supply failures; and stocks at suppliers at the end of the period.)¹³

This method is complex and cumbersome and requires several iterations to ensure internal consistency of output target figures. It also focuses on each commodity individually, in isolation from all others. Vital relationships among commodities may be overlooked in the planning process. Because of these significant shortcomings, use of the material balances approach to planning has declined. The second method, inter-branch balances, has become the preferred approach in most socialist countries.

Inter-branch balances is a highly sophisticated method that "can best be described as input-output analysis. It consists in working out a matrix flow which looks like a chessboard. It provides a synthetic and lucid picture of processes directed at production and distribution."¹⁴

The value of the inter-branch balances system is that it represents the entire economy in tabular form. It depicts the interrelationships among all the branches, thereby permitting cross-referencing in seemingly unrelated areas of the economy. An important advantage of this method is that it

¹³Herbert S. Levine, "The Centralized Planning of Supply in Soviet Industry," Comparisons of the United States and Soviet Economies (Joint Economic Committee, Congress of the United States, 86th Congress, First Session, 1959), pp. 162-163, cited in Leeman, p. 23.

¹⁴Wilczynski, p. 18.

often permits identification of input needs that would not be considered or recognized using other methods of analysis.¹⁵

After the State Planning Commission balances the supply and demand for each of the centrally-planned commodities, it submits the plan to the Council of Ministers. The Council of Ministers may approve the plan as submitted, or it may direct changes to target outputs, which then require rebalancing of the plan.

Once the plan is approved by the Council of Ministers, the final step in the process is for the State Planning Commission to send it through the economic hierarchy. At the lowest level, the enterprises receive orders for delivery of outputs and authorizations for inputs. The enterprises then work out details of production and delivery schedules among themselves.¹⁶

D. COMPARISON OF SOCIALIST AND CAPITALIST ECONOMIES

Since most of the socialist countries do not make detailed economic data available for international scrutiny, it is difficult to make statistical comparisons between socialist states and capitalist ones. The utility of such a

¹⁵This is an application of an input-output analysis procedure developed by W. W. Leontieff in 1931. For details on its construction see Wassily W. Leontieff, "Input-Output Economics," *Scientific American*, October, 1951, pp. 15-21. Campbell R. McConnell, *Economics*, (New York: McGraw-Hill Book Company, 1981), pp. 651-653, provides a good summary.

¹⁶Leeman, p. 22.

comparison would be highly questionable because of large gaps and uncertainties in the information. However, it is possible to learn a great deal about the nature of the socialist economies and political systems from the information that is published; so rough comparisons should not be rejected as completely useless. Often, best estimates or composite figures can be quite revealing.

Before beginning any comparison of socialist and capitalist economies, it is important to note several caveats which strongly limit the conclusions that could be drawn from an examination of the information. Most important is the need to ensure that any figures used reflect the same calculations for both types of economies. As an example, gross national product (GNP) data are calculated differently in capitalist societies than in socialist ones, and the data cannot be equated directly from one system to the other. Official Communist sources use the term net material product (NMP) or national income (NI) to describe concepts similar to Western GNP calculations; however, the figures derived from their calculations are approximately one-fifth smaller than if calculated by Western methods.¹⁷

The second most important caveat is the need to recognize that writers in both economic systems tend to exaggerate

¹⁷Wilczynski, p. xiv. For definitions of commonly used socialist economic terms, see Appendix A.

the accomplishments of their own system and the failures of the other. Conversely, they also tend to downplay the successes of the other system and the deficiencies of their own.

Beyond these considerations, particular constraints apply to the most common comparisons between capitalist and socialist economies--those dealing with per capita income and standard of living indicators. Once again, direct comparison of data is neither advisable nor productive, for the following reasons:

first, the Socialist figures are only rough estimates, involving complex adjustments of the official statistics of the Net Material Product in inconvertible currency to the Western GNP in convertible currency;

second, as a rule a Socialist centrally-planned economy devotes a lower proportion of its national income to current consumption (favouring higher investment and defence spending than is typical of a capitalist economy at the same level of economic development; the relatively high Soviet spending on defence and space programmes largely explains why the observable standard of living is lower in the USSR than in Poland, Hungary, and Bulgaria;

third, in the Socialist countries (as compared with the developed West) working hours are relatively long (42-50 a week against 36-42 a week) and annual holidays are shorter (2-3 weeks against 3-5 weeks);

fourth, the range of consumer goods and services is usually smaller, and their quality (including service in shops) is poorer; there are frequent shortages (and consequent queues and waiting lists); there is partial rationing in some of them (China, Cuba, Poland and Vietnam); and there are irritating restrictions on personal freedom.

On the other hand, the facts that may detract from the standard of living may be compensated to varying degrees in different Socialist countries by the absence of unemployment, the reasonable stability

of prices, the availability of comprehensive and generous social security and a more even distribution of personal income and assets than is typical under capitalism.¹⁸

Keeping these caveats and constraints in mind, there are, nevertheless, general comparisons between capitalism and socialism which can be both useful and instructive. The most important difference between the two economic systems is who assumes the responsibility and risks of investment. Because capitalism depends on private investment, development in any sector is always a function of individuals' interests and perceptions of potential benefits or losses. Although the profit motive can be extremely powerful, it does not guarantee investments. The possibility that key sectors of the economy could suffer from underinvestment while less vital areas are oversupplied is everpresent.

On the other hand, under socialism, the state owns the means of production and is responsible for investment. Ideally production goals, determined by central planners who are motivated by the needs of the country, not profits, drive the allocation of resources. At least in principle, planners will agree on the priority for and the degree of investment in each sector based on its importance to the overall economy. There is no individual risk involved. Personal preferences and desires are, theoretically, eliminated.

¹⁸Wilczynski, pp. 213-214.

All conditions which may be described as advantages of socialist economies derive from this fundamental difference between capitalism and socialism. As already stated, the entire economy is goal-oriented, suggesting an explicit, understood, and accepted objective. For this reason, the economy is able to focus attention and concentrate resources in specific areas. By so doing, dynamic and dramatic growth is possible and has been achieved in important sectors such as heavy industries. Since all efforts are directed toward accomplishment of the objective, the socialist system is in effect dehumanized. In Communist theory, socialist economies are less susceptible to whim or to the vagaries of human nature than are capitalist economies (although the subsequent economic distortions of Mao, Khrushchev, and Gierek demonstrate the susceptibility of socialist states to the whims and excesses of individual leaders).

The planning which is responsible for reducing susceptibility of the economy to fluctuations of interest also decreases the potential, at least theoretically, for wasteful production practices. Because production goals and standards are set and because the profit motive is lacking, there is no reason to produce articles of varying quality, to overproduce certain items, to restrict supplies artificially, or to engage in expensive sales promotions. In addition, important outgrowths of planning are the elimination of unnecessary duplication of effort and the control of employment. All work,

by definition, is productive and useful to society, and everyone is assured a job.

This basic tenet of socialist philosophy, the dignity of labor, is incorporated into the very fabric of the economy. In theory, coupling of this concept with state ownership of the production capacity means that the workers control their employment situations. They are not merely employees, but also employers. Selfishly motivated exploitation of the workers and disruptive strikes are theoretically replaced by a spirit of cooperation. All workers share equally in the responsibility for achieving the set production goals. As a result, workers idealistically can expect an equal share in the outcome of their production efforts. According to Communist theory, there should be a more even distribution of income in socialist countries than in capitalist ones. Additionally, although the overall standard of living in socialist countries is lower than in capitalist societies, there should be very few examples of extreme poverty or extreme wealth.¹⁹ (Once again, however, socialist practice does not conform to the theory. Political and military elites enjoy a standard of living well above that of the average citizen. They have access to better quality merchandise and services, including such "luxuries" as private homes and automobiles. For others in the system, basic survival is a struggle.)

¹⁹Wilczynski, pp. 214-216.

The description of the advantages of socialism vis-a-vis capitalism may appear to be simplistic; however these are demonstrable characteristics of the system. It is interesting to note that the capitalist economies also attempt to control economic conditions to ensure full employment and develop a more equitable distribution of income. They come closest to achieving these goals through government regulation or when they adopt socialist practices in the production sector. As an example of the latter situation, workers in many factories have joined together to buy the plants where they work to ensure their continued employment. Another example is proliferation of agricultural cooperatives in capitalist countries. Although participation in such ventures is voluntary, workers in capitalist countries, in ever-increasing numbers, are getting involved in activities that could be considered socialist behavior.

E. PROBLEMS OF SOCIALIST ECONOMIES

The most important theoretical advantages of socialism, planning and goal-orientation, paradoxically, create its most serious problems. While socialist states acknowledge that the role of central planning organizations is vital to the successful functioning of the economy, they tend to overlook or ignore the need for economic background and expertise among those chosen as members of the State Planning Commission. Ideological concerns predominate instead. The result

is planning decisions that are ideologically acceptable; they may make little or no economic sense.

Because economic decisions reflect ideology, there can be no flexibility in interpretation or implementation. To ensure strict compliance with Party dictates, a huge bureaucracy is necessary. The nature of bureaucratic organization contributes to the rigidity of the system and its inability to respond effectively and expeditiously to problems or potential opportunities.

In addition to the adverse effects of ideology and bureaucracy, socialist countries compound their problems by attempting to conduct economic planning at the macro-economic level only. There is virtually no attempt to deal with the micro-economic issues that impinge on the productive capacity and capability of the enterprises. Problems of management and use of resources at operational levels are neglected.

The combination of these ideological, bureaucratic, and macro-economic constraints serves to magnify any judgmental errors made in the planning process. Even if decisions were economically sound and carefully considered the relationship between macro-economic and micro-economic issues, the potential for error increases as the number of decisions to be made increases. The vastness of the system creates its own environment for error.

Beyond the problems created by centralized planning, socialist economies also suffer from the lack of an appropriate

pricing system. With restricted involvement in the international market pricing of goods and the lack of a domestic free market system, the socialist countries arbitrarily "fix" prices for economic items, without taking into account the factor costs for producing the items. In many instances, prices are artificially low and supplies of items are quickly depleted. In those cases, the government must intervene with rationing to prevent wide-spread disruption of the economy.

This problem highlights another common feature of conventional socialist economies--the consumer cannot affect type, number, or price of goods, even in the consumption market. Availability, style, and price of consumer items are determined by central planners. Because there is no competition for consumer purchasing power, there is no incentive for consumption oriented enterprises to upgrade item quality; and because there is no danger that consumption oriented enterprises will be forced to close because of poor quality products, mediocre items that would not survive in a competitive environment have become the hallmark of the system.²⁰

Despite the shortcomings of the conventional socialist system of economic development, it has proven to be a dynamic and dramatic force. It is capable of significant growth and influence. The principles of socialism are attractive to much of the world.

²⁰Wilczynski, pp. 217-219.

As previously mentioned, capitalist countries are adopting socialist principles in limited instances--specifically involving employee ownership of industrial plants and agricultural cooperatives--to address employment problems or income distribution considerations. It is in the Third World, however, that Soviet-style socialism exhibits its greatest appeal. Many Third World countries are drawn to it because it affords them the means of rapid industrialization and dramatic growth in production capacity. The intense desire of the Third World countries to "catch up" with industrialized countries in terms of economic development is used as justification for adopting socialism. The fact that no country has approached Western standards of development by employing Soviet-style socialist practices does not reduce socialism's attractiveness to Third World leaders.

More important than economic growth potential for many of these leaders, however, is socialism's appeal from an ideological perspective. It provides a rationale for centralized control of all facets of political as well as economic life in the country. This concentration of power creates a ruling elite and also provides for its protection. Political leaders can justify government intrusion into social activities of citizens, "legally" explaining any measures they deem to be necessary to maintain the system. For these reasons, the ambitions of many leaders are well served by adopting socialist practices.

III. EAST EUROPEAN ECONOMIES

A. COMMON DEVELOPMENT

Between the end of World War II in 1945 and October 1949, when the German Democratic Republic (East Germany) was formally established, the Soviet Union consolidated its hold on Eastern Europe. An integral feature of the Communist Party rise to power in each country was the creation of a socialist economic system. In almost all of the countries, Soviet military power was needed to install the new government and to initiate the transition to socialism. It is not surprising, therefore, that the new socialist economies in Eastern Europe should have been essentially mirror-images of the Soviet model, the only functioning socialist system in existence at that time. (Even Tito in Yugoslavia patterned his original economic program on Soviet experience. It was only after the rift between Stalin and Tito that Yugoslavia launched its independent economic policy.)

After the imposition of Communist Party rule and socialist economic order, each country began its five-year plan of initial development, roughly corresponding to the 1949-1953 time frame. These years have come to be known as the Stalinization period, because of the complete domination Stalin exerted over Eastern European economies during this time. He demanded that each new socialist state follow exactly the

Soviet pattern of development. This meant strong emphasis on heavy industries and collectivization of farms. Thriving East European light industries and private farms were unacceptable remnants of capitalist influence. Relentless effort to eradicate these influences created the perception in the West, by the end of the 1950's, of the Eastern European countries as mere satellites in the Soviet Union's orbit.

This perception of the Eastern European countries as extensions of the Soviet Union, in economic as well as political terms, persisted for many years. That these countries traded predominantly among themselves and concealed economic data from outside examination contributed to this perception.

In contrast to Stalin's approach to economic development in Eastern Europe with its emphasis on conformity to the Soviet experience, Khrushchev wanted to create a supranational economic organization to take advantage of the different economic potential of each country. Under this plan, certain countries would concentrate on raw materials and agricultural products--primary products--for supply to those countries with industrial capacity to process them. This would, theoretically, maximize each country's potential contribution to the advancement of socialism.

Khrushchev's plan met with resistance as had Stalin's before him. Those countries designated as sources of primary products interpreted the plan as an attempt to restrict their development--to prevent their industrialization and economic

advancement. In response to what they perceived to be Soviet exploitation, Eastern European Communist bloc countries began to develop economic policies that did not conform to the Soviet experience. These policies reflected the unique ethnic character and economic realities in each country. The period of detente in the early to mid-1970's provided opportunities for broad trade relations with the West and created an atmosphere for greater divergence from the Soviet model.

8. ECONOMIC CHARACTERISTICS OF EASTERN EUROPEAN COMMUNIST BLOC COUNTRIES (EXCLUDING ROMANIA)

Since the mid-1960's, the countries of Eastern Europe's Communist bloc have attempted to pursue individualistic approaches to socialism. No country has abandoned or rejected the basic socialist principles of centralized planning and control; but each has modified these principles and incorporated features which give its economy, in varying degrees, a unique, nationalistic stamp. In so doing, they have had different degrees of success, both in improving economic conditions in the country and in maintaining good relations with the Soviet Union.

1. Bulgaria

The Peoples Republic of Bulgaria is the smallest of the Eastern European economies. It is also one of the less developed countries of Eastern Europe. It is still primarily an agricultural state, but it has made significant strides

in industrialization. In 1981, Bulgaria reported the highest economic growth rate in Eastern Europe. "National income increased by 7.2 percent, chiefly because of increased labor productivity, expanded industrial production, and growth in several key sectors including chemicals, electronics, machinery, and light industry."²¹

Bulgaria's brand of socialism emphasizes gradual decentralization of the economy and more freedom for the individual enterprises. The trend began in the mid-1960's with a pilot program of management independence in a single textile factory. The experiment worked, and the concept slowly spread to other enterprises.²² In the 1970's, the program of decentralization acquired the name New Economic Mechanism (NEM). This program has been credited with a major role in increasing the growth rate of the agricultural sector in 1979. Agriculture continues to account for more than 25 percent of Bulgaria's national income.²³

The following four principles of Bulgaria's New Economic Mechanism seem to run counter to the most fundamental

²¹Karen Jurew, "Trade Expansion Underlies Steady Economic Growth," Business America, Volume 5, Number 16, August 9, 1982, p. 18.

²²Eric Bourne, "A Guide to Creeping Capitalism in the East Bloc," Christian Science Monitor, March 24, 1983, p. 9.

²³"Five-Year Plan Provides Opportunities for Trade and Industrial Cooperation," Business America, Volume 4, Number 20, October 5, 1981, p. 15.

principles of socialism prescribed and promulgated by Marx, Lenin, and Stalin:

1. Economic accountability and self-support by each enterprise. Every production unit is to rise and fall on its own. State subsidies, which were formally (sic) granted to enterprises operating at a loss, are to be withdrawn.
2. Reduction in centralized planning. Planning from above--the process by which the central planners prescribe a set of guidelines for each enterprise such as rates of production of different commodities, is to be substantially reduced. The individual enterprise is to make its own "counterplan" which fills in the details of how these general targets are to be met, and what articles to produce that are not determined by state plans. It is in this approach of "planning from below" that the enterprise is expected to use its own initiative and maximize its return.
3. Self support. The state is gradually ending all subsidies to enterprises which previously could not pay their debts out of their own capital. Now the principle to be followed is that the enterprise--and its workers--will not be entitled to take from the economy more than they have given it. By linking wages with output, it is hoped that workers will have more incentive to produce more goods of higher quality.
4. Brigade system. This system of self-sufficiency and accountability is to be applied, wherever practical, at the lowest work level--that of the brigade.²⁴

Deriving approximately one-third of its national income from its exports, Bulgaria has the most trade-dependent

²⁴"Planners Appear to be Looking to the West to Find Answers Plaguing the Economy," Business America, Volume 3, Number 10, May 19, 1980, pp. 28-9.

economy of the Eastern European bloc countries. The great majority of this trade, averaging 80 percent, has consistently been with other bloc countries and the Soviet Union, which alone accounts for 55 percent of Bulgaria's foreign trade. Although Bulgaria is willing to continue the relationship it shares with these trading partners, the predominant concern among Bulgarian officials is the modernization of the Bulgarian economy. Recognizing that significant technological inputs from the West are necessary to achieve this goal, Bulgaria began pursuing a policy of expanding trade ties with the West in the mid-1970's.

A major initiative designed to expand economic cooperation with the West is the joint venture law. Promulgated in March 1980, this law promotes formation of jointly-owned enterprises operated in Bulgaria or third countries. Activities of these ventures are deliberately outside the framework of the state economic plan.²⁵ Recent examples of such joint ventures are the opening of Pierre Cardin boutiques and a Pizza Hut in Bulgaria and a contract for Bulgaria to build the British Perkins engine.²⁶

Another deviation from the socialist planning model is the introduction of single-year plans within the context

²⁵"Planners Looking to West," p. 30

²⁶Eric Bourne, "Pizza Hut Communism Splits East Bloc," Christian Science Monitor, November 19, 1982, p. 6.

of existing five-year plans. This practice occurred for the first time in late 1978. Output targets established in 1976 for 1980 were readjusted downward to reflect the realities of Bulgaria's economic conditions.²⁷ The government's tendency to reduce quantitative targets is expected to continue.

Because of their relative economic successes, Bulgarians are fairly well satisfied and there is little potential for disturbances motivated by economic issues. "There are no queues in Sofia, the food shops are well stocked and prices are low."²⁸ Additionally, politically motivated agitation is not very likely. "Laws severely punish anyone accused of slandering the state....There is no known organized dissident movement."²⁹

In terms of its relations with the Soviet Union, Bulgaria is "Moscow's most unswervingly loyal ally in political matters and foreign affairs."³⁰ Its relationship to Moscow is probably best demonstrated in the circumstantial evidence linking Bulgarian secret agents to the assassination attempt

²⁷"Move Toward Greater Decentralization of Economy Could Facilitate Closer Ties with U.S. Business," Business America, Volume 2, Number 12, June 4, 1979, p. 13.

²⁸"The Un-Polish News," Economist, Volume 281, Number 7212, November 21, 1981, p. 59.

²⁹Bernard Gwertzman, "East Europe Measures Its Freedom by Inches," New York Times, December 21, 1980, p. 4D.

³⁰Frederick B. Chary, "Bulgaria: The Solace of History," Current History, Volume 80, Number 465, April 1981, p. 164.

on the Pope in 1981. Bulgaria has a reputation for obeying Soviet decisions and adhering to Soviet advice, even to the detriment of its own interests. Bulgarian efforts to forge links with the West to improve its economy are seriously undermined by its connections to Soviet-directed intrigue in foreign affairs.

Bulgarian obedience, almost subservience, to Moscow can be understood in light of the historical relationship between the two countries. Unlike other Eastern European countries, Bulgaria has no historic animosity toward Russians or the Soviet Union. In fact, Bulgarians regard Russia as their liberator, dating from the freeing of Bulgaria from 500 years of Ottoman Turkish rule by Tsar Alexander.³¹ In addition, Bulgarians feel indebted to the Soviet Union for assisting in their industrial development after World War II.

Increased tensions between Moscow and Belgrade could exacerbate Bulgarian territorial quarrels with Yugoslavia over Macedonia and cause Bulgarian officials to re-evaluate the relationship with the Soviet Union. Barring this, there are no indications of change in the foreseeable future.

2. Czechoslovakia

Before World War II, Czechoslovakia was one of the most economically advanced countries in Eastern Europe, and

³¹James Kelly, "To Russia With Love," Time, Volume 131, Number 7, February 14, 1983, p. 49.

the quality of Czechoslovak products compared favorably with that of other industrial countries. In 1981, the Czechoslovak Socialist Republic ranked "among the ten most industrialized societies by some measures, and among the communist nations, was second only to the German Democratic Republic in the prosperity and standard of living of its people."³²

The high ranking among industrialized nations in 1981 is misleading, however; Czechoslovakia failed to meet many of its economic goals, and "only one-fifth of Czechoslovakia's industrial export products meet quality standards required on world markets."³³ Consumer demands for food and other necessities are barely met.

After the Soviet intervention crushed the economic reform movement in 1968, Czechoslovakia reverted to a rigid, Stalinist economy. In the following five years, the Czechoslovak economy exhibited tremendous growth in some key areas. There was a 32 percent increase in net material product, a 27 percent increase in personal consumption, and a five percent increase in real wages during this period.³⁴

³²Richard F. Nyrop (ed.), Czechoslovakia: A Country Study, (Washington, D.C.: U.S. Government Printing Office, 1982), p. 115.

³³Otto Ulc, "Czechoslovakia and the Polish Virus," Current History, Volume 80, Number 465, April 1981, p. 155.

³⁴Vladimir V. Kusin, "Husak's Czechoslovakia and Economic Stagnation," Problems of Communism, Volume 31, Number 3, May-June 1982, p. 27.

Although the specific causes for this upsurge in the economy are not known, it has been postulated that an implicit social contract was forged between the Czechoslovak government and the population that states, "the rulers rule and the citizenry is rewarded with a relatively high standard of living and the opportunity to attend to its private affairs in exchange for not meddling in public affairs."³⁵ In effect, Czechoslovaks channeled their energies away from political and economic activism into the more mundane tasks of achieving maximum output from an existing system, and their efforts were rewarded.

The rosy picture darkened in 1973, though, as the effect of the oil crisis began to be felt. Although Czechoslovakia was not directly affected by the price increase by the Organization of Petroleum Exporting Countries (OPEC)--almost 98 percent of Czechoslovak oil needs was met by imports from the Soviet Union--it became an indirect victim. As a result of the recession in the capitalist world triggered by the oil crisis, markets for Czechoslovak exports shrank. "The year 1973...was a watershed for the Czechoslovak economy. The balance sheet turned from black to red, from surplus to deficit."³⁶ When the Soviet Union later raised its oil prices, Czechoslovakia suffered a severe blow from which it could not

³⁵Ulc, p. 154.

³⁶Ibid., p. 155.

recover without drastic change in the structure of the economy. Since such change was not forthcoming, the Czechoslovak economy stagnated in the latter half of the 1970's. Problems of low productivity, energy and material waste, and misallocation of resources contributed to the decline in economic performance.

In 1980, the Czechoslovak government introduced the "Set of Measures," a program designed to improve its system of planned management throughout the coming decade. The program was intended "to increase enterprises' decision-making authority, to provide specific incentives to management and labor, to make more efficient use of resources, to encourage innovation, and to stimulate production for export."³⁷

With such broad guidelines, the program had the potential to make structural changes in the system which could have effected genuine reforms in the economy. In practice, it has proven to be "a cosmetic exercise intent only on bettering the working of the existing system."³⁸

Achieving program goals is a formidable task. Realizing that the customary five-year plans required constant adjustments in the economic targets, Czechoslovakia's planners

³⁷Karen L. Jurew, "Cautious Economic Policies are Limiting U.S. Exports," Business America, Volume 5, Number 16, August 9, 1982, p. 19.

³⁸Eric Bourne, "Czechoslovakia: Fifteen Years After Soviet Invasion, Prague Stagnates," Christian Science Monitor, August 22, 1983, p. 12.

have begun to prepare annual plans instead; but even these plans require reduction in the target figures. Czechoslovakia's Communist Party did not adopt its Five-Year Plan for 1981-85 until December 1981, "at the end of the first year of the period for which the plan was to direct the economy."³⁹ The general guidelines of the 1981-85 Plan suggest--not direct--low rates of growth and investment. These guidelines reflect the need to adjust to rising costs of energy and raw materials and declining supplies of these goods. Czechoslovakia must also modernize existing plants and equipment if it hopes to improve labor productivity, reduce raw material and energy inputs, and improve the quality of its exports.⁴⁰

Because the economic system has become increasingly deficient in satisfying the needs of its citizens, Czechoslovakia is ripe for discontent and dissent. In June, 1983, a group of approximately 300 young Czechoslovak participants in a government-sponsored peace conference in Prague broke away from a rally of 2600 delegates from 140 countries. They staged a protest march through the streets demanding freedom and the abolition of the army. The demonstration was quickly squelched by police and several arrests were made. This was the first major protest in Prague in the 15 years since the

³⁹Kusin, p. 34.

⁴⁰"U.S. Firms Should Act to Promote Exports," Business America, Volume 4, Number 20, October 5, 1981, p. 11.

Soviet invasion in 1968,⁴¹ but it is not the only example of recent dissent and unrest in the Czechoslovak capital.

Charter 77 is a group of intellectuals and dissidents that formed in 1977 after the signing of the Helsinki Accords on Human Rights. After a few proclamations of Czechoslovak violations of human and civil rights in the late 1970's, the group became dormant. In the first eight months of 1983, however, Charter 77 stepped up its activity, including sending a letter of support of Polish Solidarity leaders. This "represents a revival of dissent."⁴²

The influence of the Catholic Church, though not as pervasive as in Poland, is another factor which could affect expressions of dissent in Czechoslovakia. Since 75 percent of the population is Roman Catholic, its potential influence is significant. In August 1983, for the first time in two decades, a Catholic primate directly charged the Czechoslovak government with discrimination against religion.

In a letter to the government Office for Church Affairs, Cardinal Tomasek challenged official claims that the government supports the church through stipends and does not restrict training for the priesthood. His action at this time was possibly prompted by a recent growth in the appeal

⁴¹"Czech Protesters Call for Freedom," New York Times, June 23, 1983, p. 6.

⁴²Nyrop, p. 58.

of the church to youth, which is causing concern among government officials.⁴³

These incidents suggest that an undercurrent of unrest exists in Czechoslovakia. The strong memories of 1968, along with the continued presence of 70-80,000 Soviet troops in the country, however, reduce the possibility of any serious disturbances.

3. East Germany

The German Democratic Republic (GDR) has the strongest economy in Eastern Europe. It is the most highly industrialized and technologically advanced of the Communist bloc countries and ranks among the top ten industrial nations in the world.

Despite its accomplishments, the East German economy is threatened from several sources: geographical constraint on growth, declining population, and few natural resources. Because, in part, East German success in the past resulted from trade with the West--the GDR is, in effect, a backdoor member of the European Common Market as a result of its special relationship with the Federal Republic of Germany--it was particularly hard hit by the recession in the West, especially because of inflation and high interest rates. The GDR depends on its export markets to provide the necessary funds

⁴³Eric Bourne, "Czech Church Speaks Against Discrimination," Christian Science Monitor, August 26, 1983, p. 3.

to repay its debt to Western governments and banks. However, markets in the West for East German goods that decreased in recent years have not yet begun to recover. The GDR has undertaken several interesting programs to deal with these problems.⁴⁴

East Germany has traditionally been one of the most faithful adherents of the Stalinist model of economic development. Nevertheless, in the 1970's, in an effort to deal with the increasing economic pressures it was suffering, the GDR initiated a fundamental change in its industrial and commercial organization. The two-stage restructuring of industrial production makes East German industries more flexible and more responsive to world market conditions.

In the first stage, 90 percent of East German industrial production was subordinated to 129 kombinate. A kombinat is an organization of enterprises and factories which engage in production of similar products, use similar technologies, or carry out sequential production stages within the same industrial sector. Under the reorganization, functions common to each sector, such as research and development, supply, and construction, are consolidated under the authority of a general director of the kombinat. This individual is responsible for implementation of all possible methods of

⁴⁴Arthur M. Hanhardt, Jr., "The German Democratic Republic," Current History, Volume 81, Number 478, November 1982, p. 367.

modernizing industrial capacity and the translation of scientific and technical developments into production.⁴⁵

Concurrent with the reorganization of industry, East Germany has embarked on a program of vigorous economic growth in the 1980's. In fact, the GDR was the only East European Communist bloc country to expand its economic targets for 1981, rather than cutting them back.⁴⁶ The 1981-85 Five-Year Plan calls for a 5.5 percent annual growth rate. The strategy for achieving this goal is to raise labor productivity and increase economic efficiency. The proposed means to accomplish these twin objectives are through accelerated scientific and technological development and the introduction of new industrial techniques. Other objectives of the plan are expanded efforts to increase hard currency earnings, improvements in the balance of trade, and steady improvements in the availability of consumer products.

This last item is a growing concern for East German economic planners. Although East Germany has the highest standard of living of any Communist country, or perhaps due to the higher expectations--the comparison for East German economic conditions among the population is not other Eastern

⁴⁵"Emphasis is on Industrial Reorganization, Expansion of Economy and Foreign Trade," Business America, Volume 4, Number 20, October 5, 1981, p. 9.

⁴⁶Suzanne F. Porter, "Trade Apparatus Reorganized in Effort to Expand Trade," Business America, Volume 4, Number 3, February 9, 1981, p. 24.

European bloc countries, but rather West Germany--East Germans do not accept shortages complacently. Press reports reveal that East Germans are becoming increasingly discontented with their economic state of affairs.

In November 1982, workers "called on Communist Party officials to explain the persistent unpredictability in food supplies, and had threatened to stage a work stoppage unless the situation improved."⁴⁷ In some instances, dissent has gone beyond mere threats. In late December 1982, a pipefitter who had installed fireplaces and heating systems in homes of Communist Party leaders and functionaries attempted to redress his economic grievances. Saying that he was "incensed to see the comparative luxury the leaders lived in," he tried to assassinate the East German head of state Erich Honecker during a motorcade. When the attempt was thwarted by Honecker's bodyguards, the assailant committed suicide.⁴⁸

Even when faced with such obvious signs that economic change to meet the needs and desires of the population is imperative, East German planners limit economic reform measures to maneuvers within the existing structure. Memories of the Soviet actions of 1953, while not as close to the surface as those in Czechoslovakia or Hungary, nonetheless are vivid

⁴⁷"Shortages in East Germany are Reported to Stir Unrest," New York Times, November 22, 1982, p. 3.

⁴⁸"East German Assassination Try Reported," Monterey Peninsula Herald (CA), January 12, 1983, p. 11.

reminders of the consequence of reforms that get too far out of hand. The presence of Soviet troops in East Germany is also an effective deterrent against drastic or rapid economic reforms that could erupt into major political disturbances. The government of the German Democratic Republic will never take, nor will it ever permit, any actions in any sphere, economic, political, or social, which could provoke Soviet military intervention.

4. Hungary

The economic system in the Peoples Republic of Hungary is a bold example of divergence from the Soviet model. It is characterized by decentralization of planning and private ownership of property and business. Such concepts, although seemingly anathema in a socialist system, have been practiced successfully in Hungary for more than two decades.

One consequence of the short-lived Hungarian uprising in 1956 was the break-up of the collective farm system created during Hungary's Stalinist period. The new government, under Janos Kadar, gave priority attention to re-collectivizing agriculture. However, instead of confiscating property and forcing participation in collective farms, the government emphasized creation of cooperatives and permitted retention of some private plots of land. Today, approximately twelve percent of arable land in Hungary is privately owned.

For twenty years, Hungary invested heavily in its agriculture sector, in contrast to the other Eastern European

bloc countries, which sacrificed agriculture to concentrate on heavy industry.⁴⁹ By maintaining a realistic balance of investment, Hungary made agriculture the backbone of its economy. As a result, unlike most of the other countries of the Eastern European bloc, Hungary is not currently experiencing shortages in food staples. There are no bread lines or ration coupons. Hungary is not only able to feed itself, but it also exports large quantities of food. During the 1970's, Hungary became a net exporter of food, in contrast to its situation at the beginning of the 1960's, when Hungary was a net importer of food.⁵⁰

In 1968, Hungary began to apply the principles that had worked so well in agriculture to its industrial sector. The New Economic Mechanism, as the Hungarian reform process is called, established the following three important changes: 1) it did away with much of the unnecessary central organization and direction of the economy; 2) it introduced elements of a more rational pricing system; and 3) it allowed the market to play a role in the equilibrium between supply and demand.⁵¹

⁴⁹Paul Lewis, "What Poland Lacks, Hungary Has Aplenty," New York Times, December 20, 1981, p. 2E.

⁵⁰"Trade Opportunities Merit Close Attention," Business America, Volume 4, Number 20, October 5, 1981, p. 5.

⁵¹Ivan Volgyes, "The Kadar Years in Hungary," Current History, Volume 80, Number 465, April 1981, p. 159.

By extending these principles to their logical conclusion, it becomes apparent that the ultimate goal of Hungary's New Economic Mechanism is the creation of a socialist economy "in which businesses compete with each other and workers and managers share in the profits."⁵² Hungary is moving purposefully in this direction. Two events in foreign trade and domestic economic policy illustrate this point.

The most significant event with regard to Hungary's foreign trade policy occurred in May 1983, when it became a member of the International Monetary Fund. (Romania joined the Fund in 1973 and is the only other member nation from the Eastern European Communist bloc.) Hungary is also a member of the World Bank and the General Agreement on Tariffs and Trade. Like Romania, Hungary also has a Most Favored Nation trade agreement with the United States.

The significant domestic economic event of 1982 occurred in January when Hungary passed a law permitting citizens to go into business for themselves. Individuals may sell goods or services for profit. Cooperative ventures of up to thirty persons may lease commercial property from the state, and, after completing their usual work day, sell their services to employers on a contract basis. The cooperative is required to pay taxes on 100 percent of the profits, but

⁵²Samuel L. Sharp, The Soviet Union and Eastern Europe 1981, (Washington, D.C.: Stryker-Post Publications, Inc., 1981), p. 78.

anything that remains after taxes may be divided among the members of the cooperative.⁵³

By taking this action, which, according to the chief of economic planning for the Hungarian government, Gyorgy Szepesi, was under discussion for three years prior to final legislative action, Hungary became the first Eastern European bloc country to legalize its "second economy."⁵⁴ Other Eastern European bloc countries tolerate the existence of their "second economies," tacitly acknowledging that they fill the gaps in the state-controlled system as well as providing an acceptable outlet for popular expression of economic discontent. Most turn an official blind eye on such extra-system activities, and some, most notably Czechoslovakia and the German Democratic Republic, show some degree of official approval. However, Hungary is the only Eastern European bloc

⁵³Dan Fisher, "Entrepreneurship Comes to Hungary," Monterey Peninsula Herald (CA), November 26, 1982, p. 16.

⁵⁴The "second economy" is a characteristic of socialist economies in which private enterprises rise up to provide goods and services not otherwise available. It is roughly equivalent to a combination of a "black market," without the negative connotation of such activity, and "moonlighting," with all the positive connotations of supplementing one's income through industry and initiative. It is a broader, more pervasive feature of the economy than either of these two concepts and involves a large percentage of the population; in some cases, more goods are produced and more services are provided by the "second economy" than within the official, state-controlled system. Primary areas of involvement are agriculture, handicrafts, retail trade, and personal services. Most notably, services tend to involve quid pro quo tactics, allowing participants to "collect on favors" in all spheres of activity.

country to establish private business enterprises officially as part of its economic system.⁵⁵

Paralleling the increased private initiative in the economy, which at the beginning of 1983 numbered more than 11,000 ventures with 80,000 employees, Hungary introduced a change in its political system as well. The Hungarian government announced in July 1983 that the next elections (in 1985) will feature a choice of candidates for nearly all government positions, from local level to national parliament. Only top leadership positions, presumably, will be exempted from the rule.⁵⁶

Although Hungary's approach to economic development appears somewhat radical for a socialist country, it has not yet caused any friction with the Soviet Union. In fact, Soviet leaders have praised the Hungarian system for employing rational solutions to pressing problems. They are examining the Hungarian model for possible application to the Soviet economy.

The apparent lack of Soviet concern for such sweeping changes in the Hungarian system can be attributed to one important fact: the changes in the economy in no way threaten or even challenge the dominance of the Communist Party in

⁵⁵Dan Cook, "Free Enterprise in Communist Hungary," San Francisco Examiner-Chronicle, March 22, 1982, p. 2G.

⁵⁶Sophie Kujda, "Hungary Introduces Some Choice Into Elections," Christian Science Monitor, July 22, 1983, p. 1.

Hungary. Hungary's Communist Party has accomplished a primary goal of political parties the world over--it has legitimacy. The Party has achieved this legitimacy "by giving the population economic benefits in exchange for their acquiescence in the party's rule: a depoliticized polity is never a threat to centralized political rule."⁵⁷

This is not to say that there is not discontent in Hungary. Dissidents number approximately 200, including a youth group called the Dialogue for Peace, which calls on both the Soviet Union and the United States to negotiate for peace. Since this contrasts with the official Hungarian policy of always praising Soviet efforts to negotiate peace in the world, the group was harassed by police until it disbanded. No arrests were made.⁵⁸

A similar example of official restraint in dealing with dissidence is the situation of a group of intellectuals who were producing samizdat--illegally published pamphlets usually produced by underground movements and distributed to people who oppose the government. Their base of operations was a bookstore operated by Laszlo Rajk, son of the Hungarian foreign minister executed by Stalin and later returned to official favor. For five months, police made an obvious show of watching the bookstore. They stopped all customers

⁵⁷Volgyes, p. 159.

⁵⁸Kujda, p. 12.

entering the store and requested identification. On two occasions, they searched the bookstore, apparently looking for samizdat documents. The warning was so obvious, that the intellectuals closed down their operation, and the bookstore went out of business. Once again, no arrests were made.

This quiet, undramatic style is effective in avoiding a confrontation between dissidents and the police. Hungarian officials do not want to create martyrs whose "sufferings" would fuel an opposition movement. Nor do officials want to drive samizdat issues underground.

In point of fact, however, there is little need for an underground opposition movement in Hungary. "Lines between opposition, dissent and officially sanctioned criticism in Hungary are very blurred....In reality, the ideological influence of the opposition is in the hundreds of thousands of legal publications"⁵⁹ in which any view may be expressed.

Because of this tolerance for opposition views and subsequent absence of a villain as a target for the intellectuals, Hungary is able to keep its small dissident population in check. Should events lead to an increase in dissident activity which the government finds intolerable, it can always resort to reminders of the Soviet invasion of 1956 and allusions to similar action now. Hungarians have very vivid and

⁵⁹Ruth E. Gruber, "Hungary Begins Crack Down on Illegal Publications, Quietly," Leader Times (Kittanning, PA), August 8, 1983, p. 5.

bitter memories of this event, and such reminders would be very effective in containing dissatisfaction.

5. Poland

Immediate post-war development in the Peoples Republic of Poland followed the same pattern as did that in other East European Communist bloc countries. The Stalinist regime emphasized heavy industrial growth and collectivization of farms. As a predominantly agricultural people, Poles strenuously resisted collectivization. Following Khrushchev's denunciation of the "Stalin excesses" in dealing with Eastern Europe, Poland stopped its efforts to collectivize. What little collective farming had been established was quickly reversed. Today, 85 percent of the farm land in Poland is owned and operated by individual families.⁶⁰

Resistance to collectivization is typical of the Polish reaction to socialism. The Western orientation and tradition of private enterprises in Poland are not reconciled easily with the principles of socialism, even after 35 years of socialist regimes. In addition, historical enmity between the Soviet Union and Poland probably contributed to Polish resistance to collectivization. It was as much an expression of Polish nationalist feeling as a struggle against an inappropriate economic measure. The mere fact that collectivization was a Soviet goal heightened Polish opposition to it.

⁶⁰Sharp, p. 84.

Because of this constant undercurrent of tension between Poland and the Soviet Union, there is always potential for turmoil in the area. It can take the form of intra-bloc or East-West conflict. For this reason, Poland occupies a very special place in world interest. Since the summer of 1980, Poland has been particularly in the spotlight of world attention. The political crisis, precipitated by the shortcomings and inequities of the Polish economy, was and still remains a serious concern.

Poland is the largest and richest of all the Eastern European Communist bloc countries in terms of natural resources. It also has the most troubled economy in the region, caused by gross mismanagement during the 1970's. Poland's development strategy throughout the decade called for simultaneous expansion of capital investment and consumption. To finance pursuit of these ambitious objectives, the Polish government borrowed heavily from Western private banks and governments. It used these funds to import enormous amounts of Western goods and technology to modernize its industrial production. In the five-year period from 1971-75, Western exports to Poland increased sixfold.⁶¹

Initially, Poland's development strategy appeared to be successful. National income rose sharply, as did personal

⁶¹"Nation Struggles with Economic Dilemma," Business America, Volume 4, Number 20, October 5, 1981, p. 6.

income and standard of living during the first half of the 1970's. By the end of the decade, however, it was obvious that Poland's development strategy had gone awry. Poland's Western debt stood at \$23 billion.⁶²

In part, the failure of Poland's development strategy was a function of the worldwide recession--there was a slackening of demand for traditional Polish export products. At the same time, however, Poland's Most Favored Nation status with the United States resulted in record-high trade, more than \$1 billion, between the two countries for three consecutive years beginning in 1978,⁶³ so the decrease in Poland's export market is not the major factor in its dismal economic performance during this period.

The underlying cause of Poland's economic problems is the inefficiency of its central-planning system. Acknowledging this fact, in early 1981, "the Polish government began to move towards an economic reform based on decentralization of decision-making to the enterprise level."⁶⁴ Economic reform laws were passed later in the year dealing specifically with worker self-management and operation of state enterprises.

⁶²"Immediate Prospects for U.S. Business are Inhibited by Nation's Difficult Political and Economic Situation," Business America, Volume 5, Number 18, September 6, 1982, p. 22.

⁶³Dolores F. Harrod, "Food, Agricultural Needs Dominate Trade Picture," Business America, Volume 4, Number 15, February 9, 1981, p. 23.

⁶⁴"Immediate Prospects," p. 21.

Implementation of the laws was postponed, though, and with the imposition of martial law in December 1981, the government suspended worker self-management, militarized the most important industries, and extended tight central control over 14 sectors of the economy.

Declaration of martial law resulted in the imposition of economic sanctions against Poland by the United States and its allies. In addition, the United States did not renew the Most Favored Nation trade agreement with Poland in 1982. It became common practice for longshoremen throughout the capitalist world to boycott Polish cargo ships. Since the trade organization of the Communist bloc--the Council for Mutual Economic Assistance⁶⁵--also reduced its exports to Poland, the Polish economic situation has gone from bad to worse.⁶⁶

In addition, as severe as Poland's economic problems already are, they are further complicated by political considerations. The rise of the Solidarity trade union was both a means of redressing economic discontent and an expression of Polish nationalism.

⁶⁵The Council for Mutual Economic Assistance (CMEA) is an interstate economic organization among socialist countries. The CMEA entry in Appendix A lists current member nations. Every member state is entitled to one vote in every working body, regardless of size, population, or contribution to the organization's budget. In the early 1960's, Romania sponsored, and won approval for, the principle that all decisions must be unanimous. Since that time, it has used this forum successfully to register its opposition to Soviet actions.

⁶⁶"Immediate Prospects," p. 21.

Intense nationalism and the influence of the Catholic Church played major roles in the development of the ongoing Polish crisis. These two features of Polish life exert a powerful influence on all matters affecting the state.

Poland's strategic and economic importance to socialism in Eastern European Communist bloc nations are key issues which will cause the Soviet Union to react adversely to any hint of Poland's drifting away from socialist practices. This is particularly true if the situation is a threat to the primacy of Communist Party rule and to strict internal control of the population. During the 1976 strikes, workers cut a portion of the main international East-West railroad. Ever since, the Soviets have been concerned that uncontrolled Polish unrest could result in disruption or total destruction of the vital lines of communication to the Soviet forces in East Germany. This danger, more than any other, could prompt Soviet intervention in Poland.⁶⁷

C. SOCIALIST ECONOMIES IN NON-WARSAW PACT EASTERN EUROPEAN COUNTRIES

No overview of socialist economies in Eastern Europe can be complete without a brief description of the two countries in the region which do not belong to either the Warsaw Pact or the Council for Mutual Economic Assistance. Albania and

⁶⁷Eric Bourne, "Soviets Bypass Poland with Ferry to East Germany," Christian Science Monitor, June 1, 1983, p. 7.

Yugoslavia are truly unique socialist economies, with histories of independence from the Soviet style of socialism in Europe since the early 1950's and late 1940's respectively. These two countries represent the extremes of socialist development--from the most rigid example of commitment to central planning to the most liberal example of market forces at work in a socialist economic system.

1. Albania

In physical terms, Albania is the most isolated country in Eastern Europe. It is sealed off from its neighboring countries by a line of almost impenetrable peaks. In political terms, the Peoples Republic of Albania is the most isolated country in the world. It is the only state in the world that has no ties, diplomatic or otherwise, with either the United States or the Soviet Union. Albania "has been totally friendless since 1978, when China, its only ally and friend, stopped the huge flow of economic and military aid it had provided during the previous 17 years."⁶⁸ The break in relations with China marked the fourth time in its history that Albania had broken off relations with a major donor of economic aid.

The first break severed links with the West; ...the economic cost was modest, for UNRRA (the United Nations Relief and Rehabilitation Administration) assistance was all but terminated. The

⁶⁸Anton Logoreci, "Albania's Future," New York Times, December 27, 1979, p. 6.

second break, with Yugoslavia, ended aid which since 1945 had accumulated to \$33 million....The third time, Soviet assistance amounting to \$150 million during the decade of that alliance, and all trade were stopped when the Albanian Party turned to China in 1961.⁶⁹

The cause of Albania's seemingly self-defeating actions is paranoia toward the entire world. Albanian leadership perceives the country as the only true "socialist" nation of the world, beset by enemies on all sides. It is "a society in pursuit of a single objective: physical survival based on absolute self-reliance."⁷⁰ Albanian government officials display equal revulsion toward the Soviet Union and the United States, denouncing both as the "biggest and most dangerous imperialist powers the world has ever known."⁷¹ The two other most influential nations in Albania's foreign relations in the past they categorize as either "reactionary" (China) or "revisionist" (Yugoslavia).

Politically and economically, Albanians are proud of this "Stalinist" distinction. Precisely because of its Stalinist heritage, however, Albania remains one of the least developed countries in Eastern Europe. It is the perfect example of the discrepancies between socialist theories and the realities of rigid socialist practice.

⁶⁹Michael Kaser, "Albania's Self-Chosen Predicament," World Today, Volume 35, Number 6, June 1979, p. 260.

⁷⁰Robert Kaplan, "Where Self-Reliance Carries a High Price," Christian Science Monitor, May 19, 1983, p. 13.

⁷¹Sharp, p. 59.

Although it has significant deposits of copper and nickel and is the world's sixth largest producer of chrome, and despite industrial growth and development, Albania's primary economic sector is agriculture. In a land almost uniformly rocky and irregular, such insistence on the importance of agriculture in the economy can only be explained in terms of devotion to the Stalinist model, in which collectivization of agriculture was so heavily emphasized.

An important reason for the consistent theme of Stalinist principles in Albania is the longevity of Enver Hoxha, the only leader the Peoples Republic of Albania has ever had. As long as he remains in power, Albania will continue to follow its traditional policies.

Signs of possible change in the not-too-distant future, however, are becoming visible. In a concluding speech at a recent conference of party and state leaders, the apparent successor to Hoxha, Ramiz Alia, made several allusions to the prerequisites for Albanian economic development under the 1986-90 Five-Year Plan. "He referred with unusual candor to 'innovative thinking' and to inescapable 'qualitative and quantitative' changes in economic structure within the next plan...and readiness for 'radical changes' in agriculture as well as industry to use the new technologies."⁷²

⁷²Eric Bourne, "Albania: A Go-It-Alone Country," Christian Science Monitor, May 19, 1983, p. 12.

2. Yugoslavia

The Socialist Federal Republic of Yugoslavia is at the other end of the political and economic spectrum from Albania. Yugoslavia was one of the founding nations of the Non-Aligned Movement. Unlike Albania, however, it does not shun relations with the superpowers. Yugoslav leaders simply prefer the flexibility and independence of action afforded by the country's non-aligned status.

Economically, Yugoslavia is the leading proponent of the "different roads to socialism" concept. It is the example and basis for comparison for all of the reform movements in Eastern European Communist bloc nations.

Yugoslavia has a "socialist market economy." This means that the Yugoslav economy is neither completely capitalist nor totally government-directed. Rather, it combines features from both systems, theoretically, incorporating the best aspects of each into a single, efficient system.

Since its break with the Soviet Union in 1948, Yugoslavia has pursued an independent course in both economic and political affairs. It has experimented with schemes for both worker self-management and for decentralization of planning. Curiously, though these two economic features have become the hallmarks of the Yugoslav brand of socialism, they were not intentional developments. When it began following its "own road to socialism," Yugoslavia did not set out to design a different form of socialist economic structure.

Immediately after the rift between Tito and Stalin, Yugoslavia initiated a more repressive and intensive period of industrialization and collectivization than had existed prior to the break in relations. These actions may have been an effort to prove Yugoslav socialist purity--to demonstrate that no fundamental ideological differences existed within the ranks of socialist nations. The replacement of its central administrative planning by a planned market economy and self-management were "efficiency measures determined by the immediate need for improvement in the living conditions of the people."⁷³

As a result of these dramatic changes, more and better consumer goods became available. This in turn led to an increase in the effectiveness of material incentives and a decrease in the need for coercion or ideological motivation. A new socialist order was born.

Operating on these basic principles through 1976, Yugoslavia's economy established other innovative features. At the same time that other socialist nations were closed off from contacts with capitalist economies, Yugoslavia was actively pursuing economic relations with the West. It expanded participation in United Nations' economic organizations and joined related economic groups such as the International

⁷³Chalmers Johnson (ed.), Change in Communist Systems, (Stanford, CA: Stanford University Press, 1970), p. 102.

Monetary Fund (IMF) and the World Bank. In contrast to the other socialist nations which excluded themselves from economic involvement in Western organizations, Yugoslav participation became a standard, expected feature of international economic relations.

In 1967, Yugoslavia expanded dealings with the West still further. It became the first socialist nation to permit joint venture investment with Western businesses. Later, amendments to the law made such ventures even more attractive and lucrative for Western companies. "By November 1978, 163 joint venture contracts had been registered. Of these, 28 involved U.S. or U.S.-subsidiary investors."⁷⁴ As is evident from these statistics, Yugoslav relations with the United States are good. Yugoslavia has a Most Favored Nation trade agreement with the United States. In 1981, the United States was Yugoslavia's fourth largest trading partner.⁷⁵

As a result of these initiatives in its international economic relations, and with a firm commitment to its basic principles of decentralization and self-management, Yugoslavia's economy achieved a sustained growth rate of six percent

⁷⁴"Good Prospects for U.S. Exports Continue as Policies Are Implemented to Stabilize Negative Trends in Economy," Business America, Volume 2, Number 22, October 22, 1979, p. 17.

⁷⁵Geoffrey Jackson, "Business Opportunities Exist Despite Economic Problems," Business America, Volume 4, Number 3, February 9, 1981, p. 16.

per year through 1976. This figure places Yugoslavia's economic growth at approximately the half-way point among East European countries during this time frame. While not as dramatic as the growth in some countries--Romania, for example increased its national income during the 1970-75 period by 11.5 percent; Poland, by 9.8 percent; and Bulgaria by 7.9 percent⁷⁶--Yugoslavia sustained the same level of growth for a longer period than any of the others. It did not exhibit the large fluctuations characteristic of other socialist countries during this time.

In the mid-1970's, Yugoslavia began to feel the effects of the Organization of Petroleum Exporting Countries (OPEC) price increases, the worldwide recession, and inflation. By 1979, a number of negative trends appeared in the economy: overheated domestic demand, high levels of foreign borrowing, poor export performances, and upward pressure on wages and prices.⁷⁷

In response to these pressures, the Yugoslav government embarked on a sustained stabilization strategy in late 1979. The key features of this strategy include compression of domestic demand, slackening off of investments, curbs on

⁷⁶Paul Marer, "East European Economies: Achievements, Problems, Prospects," in Communism in Eastern Europe, edited by Teresa Rakowska-Harmstone and Andrew Gyorgy, (Bloomington, IN: Indiana University Press, 1979), p. 255.

⁷⁷"Good Prospects," p. 16.

imports, and channeling energies and resources into exports. Repayment of the foreign debt is a top economic priority.⁷⁸

Yugoslavia owes approximately \$10 billion to private banks and another \$8 billion to Western governments. Comparisons with Poland are inevitable, but Western officials are quick to point out that a decided difference between the two situations exists. "The Yugoslavs are facing a cash-flow problem rather than the specter of insolvency."⁷⁹

In the midst of the severest recession since World War II, the Yugoslav government is making a considerable effort to meet its loan repayment schedule. It has opposed any rescheduling of its repayment requirements, declaring that such action merely postpones the problem. However, servicing of foreign debts is taking its toll on the Yugoslav economy.

In 1982, ten percent of Yugoslavia's national income was devoted to repayment of foreign debts. To deal with the problem, the Yugoslav government instituted an economic austerity program to reduce domestic consumption and increase exports in order to increase hard currency earnings.⁸⁰ Measures include a drop in public investment by approximately 20

⁷⁸Geoffrey Jackson, "Austerity Measures Make U.S. Sales More Difficult," Business America, Volume 5, Number 16, August 9, 1982, p. 17.

⁷⁹John Tagliabue, "U.S. Seeks Aid for Yugoslavia," New York Times, December 8, 1982, p. 22.

⁸⁰John Tagliabue, "Yugoslavia in Talks on Debt Assistance," New York Times, January 18, 1983, p. 30.

percent, decline in overall expenditures of at least 10 percent, and decrease in standard of living by 10-12 percent.⁸¹

At the same time, industrial production rose by two percent and agricultural production rose 2.5 percent. This growth, however, was directed into export markets in an effort to acquire hard currency with which to repay Yugoslav debts; very little, if any, growth occurred in domestic consumption. A nine percent increase in export trade is expected in 1983.⁸²

Yugoslavia's heavy reliance on exports to stabilize its economy met with serious problems in the initial stages of this austerity program. The European Community (Common Market) had many trade barriers which excluded Yugoslav export products, or, at a minimum, severely limited the volume of products that would be accepted.

As a consequence, Yugoslavia was forced to increase its trade with the Soviet Union and Communist bloc countries. Trade with the Soviet Union grew to almost one-third of all Yugoslav trade in 1982, displacing West Germany and Italy as Yugoslavia's top trading partners. In large measure, this increase reflects the fact that the Soviet Union supplies approximately half of Yugoslavia's oil needs. Nevertheless, without a corresponding growth in Western trade to offset it,

⁸¹"Yugoslavia Plans Austerity Move," New York Times, January 9, 1983, p. 5.

⁸²*Ibid.*

this expansion of its trade relations with the Soviet Union represents, in the Yugoslav perspective on foreign affairs, an undesirable form of dependence.⁸³

To avert what appears to be the logical consequence of such dependence--a gradual, but definite, move to return to an alliance with the Soviet Union--Yugoslavia needs to balance its Soviet and Western European trade. Toward this end, Yugoslavia made repeated efforts in 1982 to persuade the European Community to relax some of its trade barriers. These efforts proved to be successful; and on April 1, 1983, a new trade agreement between the European Community and Yugoslavia was announced. This agreement guarantees Yugoslavia "substantial concessions on its exports and access to the European Investment Bank. Commercial bank creditors agreed on a \$4 billion rescue package."⁸⁴

This action reflects the confidence of Western governments and economic institutions in Yugoslavia's ability to overcome its current economic difficulties. Continued assistance from the West will be required for at least two years; but at issue is the value to the West of Yugoslavia's continued independence within the socialist world and the degree to which the West is willing to assist in assuring it.

⁸³Eric Bourne, "Yugoslavia's Economic Troubles Push It Reluctantly Toward Soviets," Christian Science Monitor, April 5, 1983, p. 7.

⁸⁴Ibid.

D. SOCIALIST EXPERIENCE AND DEVELOPMENT IN EASTERN EUROPEAN COUNTRIES

Introduction of socialist practices in the countries of Eastern Europe has produced, short of war, the most significant economic, political, and societal upheaval in history. In some countries, Soviet military occupation forces imposed, literally overnight, the changes. In others, Soviet support to Communist party leaders in the government or guerrilla factions ensured their eventual success. It is, therefore, not surprising that each country's early socialist experience conformed to the Soviet pattern.

In the almost four decades of Communist rule and socialist practice in Eastern Europe, each country has deviated to some extent from the Soviet model and placed its own unique stamp on the face of socialism. Monolithic Communism in the region, if it ever really existed, is no longer. The degree of loyalty and obedience to the Soviet party line now varies, from virtual subservience in the case of Bulgaria to Hungarian economic experimentation to Romania's apparent political recalcitrance and independent actions, which are discussed in the following section.

Its position as "the first among equals," however, ensures the Soviet Union's continuing influence on the affairs of its allies. Ideological pronouncements in Moscow affect political decisions and economic developments in each of the bloc countries.

IV. BASIC FEATURES OF THE ROMANIAN ECONOMY

A. IDEOLOGICAL CHARACTERIZATION

The creation and initial growth of socialism in Romania relied very heavily on the Soviet economic model and official ideology. Soviet pronouncements on Marxist-Leninist theory laid the foundation for development of the socialist system in Romania, as well as for that in other countries of Eastern Europe.

In 1967, the official Soviet ideology of socialism underwent a significant change. In a major speech during the celebration marking the fiftieth anniversary of the October Revolution, Soviet Premier Brezhnev introduced a new term, developed socialism,⁸⁵ to the socialist lexicon. By 1971, this new concept had become an explicit component of Soviet

⁸⁵"Developed Socialism" is a qualitative distinction denoting the highest level of growth within the socialism phase of transition from capitalism to communism. It represents a more mature stage of evolution than "basic socialism," which, in turn, is more advanced than the "building socialism" stage; but it is still a long way from communism. The distinguishing characteristics of "developed socialism" are a technologically advanced industrial infrastructure, which operates at peak efficiency to meet the needs of the population; a highly-trained, highly-skilled population, which displays a high degree of cultural integration and social unity; and a "perfected" state, which performs its functions of planning, administering, and directing economic, social, and political affairs efficiently and effectively. The most dynamic features of "developed socialism" are economic and technological.

thought. Arthur Evans, in an article that traces the use of the new terminology in Soviet speeches and press reports, suggests that the concept of developed socialism is Brezhnev's contribution to Marxism-Leninism. As such, its widespread acceptance signified Brezhnev's emergence as the most dominant figure in Soviet politics.⁸⁶

Apart from its impact on Soviet domestic politics, the concept of developed socialism serves a far-reaching purpose for socialist ideologists. It is a means of explaining the contradictions between the realities of life in socialist states and the utopian promises of Communism.⁸⁷

The basic characteristics of developed socialism are a shift in the amount of emphasis on economic criteria and re-defined expectations for social and political transformation. Although portrayed as logical outgrowths of traditional ideology, these characteristics represent significant departures from socialist practice.

The shift in economic emphasis is evident in the new pattern of resource allocation. Historically, the Soviet economy has concentrated capital investment in heavy industry on the premise that a high rate of growth in this sector would

⁸⁶Arthur B. Evans, "Developed Socialism in Soviet Ideology," Soviet Studies (Glasgow), Volume 29, Number 3, July 1977, p. 415.

⁸⁷Daniel N. Nelson, "Worker-Party Conflict in Romania," Problems of Communism, Volume 30, Number 5, September-October 1981, p. 40.

facilitate the transition to Communism. The new approach stresses a balanced distribution of resources to consumption, defense, and growth.⁸⁸

The new outlook on social transformation does not completely reject the fundamental principle of a classless society, but it suggests postponing its realization. The main criterion for social relations in developed socialism is a high degree of social unity--the complete elimination of class distinctions will occur at some point in the distant future.⁸⁹

The most blatant departure of developed socialism from traditional Marxist-Leninist theory relates to transformation in political realities. Soviet ideologists now argue that the state should not wither away, but should remain a durable institution. It will play a major, even dominant, role in administrative functions.⁹⁰

Beyond its utility as a theoretical construct, developed socialism is a distinct stage in the evolution toward Communism. The ultimate objective of this stage is to build on the foundations of basic socialism to ensure that all prerequisites for a Communist society are achieved. The process is expected to be prolonged and deliberate.

⁸⁸Evans, p. 418.

⁸⁹Ibid., p. 420.

⁹⁰Ibid., p. 423.

Developed socialism is the highest currently defined level of socialism. To date, only the Soviet Union has claimed to have achieved this stage. The socialist states of Eastern Europe have not challenged the Soviet claim to a more mature level of socialist development and each has announced official intentions of pursuing this goal.⁹¹

At its 11th Party Congress in 1974, the Romanian Communist Party adopted economic and social development guidelines which set 1990 as the target date for becoming a developed socialist state.⁹² However, Romania prefers to be depicted as a developing socialist economy. Such classification provides two important benefits for the Romanian government: first, it justifies the Romanian desire for closer links with other "developing" countries (which serves as a political counter-weight to links with the Soviet Union and other Warsaw Pact allies), and second, it has distinct economic advantages for the country.

In 1971, the European Community (EC) announced its intentions to support economic development in the Third World. A measure of this support was the extension of preferential treatment for imports to the EC from developing countries.

⁹¹Evans, p. 417.

⁹²Programme of the Romanian Communist Party for the Building of the Multilaterally-Developed Society and Romania's Advance Toward Communism, (Bucharest: Meridiane Publishing House, 1975), p. 73.

In 1972, Romania requested and was granted trade preference for its exports to the EC.

Also in 1972, Romania asked the United Nations to support its request for membership in the Group of 77, the organization of developing countries. By becoming a member of this group, Romania hoped to gain the trade benefits offered to developing countries by the industrial nations.⁹³ Romania's campaign for inclusion in this group was successful in 1976, when the ministerial meeting of the Group of 77 granted it full membership.⁹⁴

The importance that Romania attaches to its status as a developing country is illustrated in two interviews that President Ceausescu granted to reporters in 1973. In the first, with a group of West German reporters, Ceausescu was asked to comment on the high economic development rate that Romania had achieved and how it would maintain that rate in the future. In response, he reiterated the Romanian claim to developing country status:

Romania has succeeded in increasing industrial output at a rate of some 14 per cent in the last 20 years. This rate must, however, be compared to the low rate our country has started from. Although having achieved this high rate, Romania is still a developing country. Therefore the Tenth Congress

⁹³Robert R. King, "Romania and the Third World," Orbis, Volume 21, Number 4, Winter 1978, pp. 879-880.

⁹⁴"Scinteia Announces 'Group of 77' Membership," East European Foreign Broadcast Information Service, Volume 2, Number 028, February 10, 1976, p. H4.

and the National Conference of the Party set the target of a continued high development rate for the next 10-15 years so that we catch up or come close to the level of the economically developed countries.

We continue to earmark some 30-33 per cent of the national income for development. We must make this effort because only in this way we shall ensure the fast development of the whole economy. The building of the multilaterally developed socialist society we have set ourselves will only be achieved on the groundwork of a strong economy.⁹⁵

In the second interview, granted to a Sudanese reporter, Ceausescu's claim to developing country status for Romania was specifically questioned. The reporter asked him to explain his reasons for such categorization, in light of "brilliant successes in economic development." In response, Ceausescu described the development of socialism in Romania by citing four examples of Romanian accomplishments.

First, according to Ceausescu, at the time that Romania began building socialism, it had a very low level of development. More than 75 percent of the population was active in agriculture. By concentrating efforts on industrialization, Romania was able to achieve a 25-fold increase in industrial output in 1973 over that of 1938, the year of peak output in the past. The comparative figures he cited for steel production alone illustrate this point, 280,000 tons in 1938 versus

⁹⁵Nicolae Ceausescu, "Interview Granted to a Group of Journalists from the Federal Republic of Germany, June 15, 1973," Romania: On the Way of Building Up the Multilaterally Developed Socialist Society, Reports, Speeches, Articles, January 1973-July 1973, (Bucharest: Meridiane Publishing House, 1973), pp. 528-529.

8 million tons in 1973. He also cited a corresponding difference in electric power production, with 1.1 thousand million kilowatt-hours produced in 1938 and 48 thousand million in 1973. He used these figures to illustrate the tempo and scope of industrial growth in Romania under socialism.

Second, Ceausescu pointed out that in agriculture Romania concentrated on creating cooperatives, improving mechanization, and introducing chemicals and modern agricultural science to the system. The process of cooperativization proved to require considerable effort and time, and it was only completed in 1962. Ceausescu emphasized that although the process of collectivization took longer in Romania than in some other Eastern European countries, the government is proud of the resultant growth in agricultural output. As an example, the average output of wheat rose from 7-800 kilograms per hectare to 3400 kilograms per hectare in Constanta County. He then stated that the government considers the integration of agricultural needs and industrial production an even more important accomplishment. When socialism was introduced in Romania in 1948, all of the tractors operating in Romanian agriculture were imports; today, domestic production of heavy machinery has eliminated the need to import agricultural machines. Romania is, in fact, an exporter of such equipment.

Third, Ceausescu mentioned the Romanian government's special emphasis on education and training. It has established a system of compulsory education for a minimum of ten years,

and it encourages talented students to continue with secondary and higher education. At the same time, however, it also has demonstrated particular interest in practical training in all spheres of activity to assure a skilled labor pool for further economic development.

Fourth, Ceausescu stated that the emphasis on scientific and cultural developments has enabled Romanians to raise the national income and their standard of living. He stressed that these two areas of development are prerequisites for socialist construction.

After speaking of the successes of the Romanian experience, Ceausescu then specifically addressed the question of Romania's status as a developing country in this manner:

Why do I nevertheless consider that Romania is a developing country? Because in spite of all our remarkable results, a quite long distance still separates us from the economically advanced countries. It is true that the socialist system is superior, but we cannot ignore the fact that the material groundwork is still low. That is why we have planned to practically do away with this gap in the ensuing 10-15 years, and to approximate the advanced countries, from the point of view of economic development. The industrial rate of growth in the first two and a half years of the current Five-Year Plan is about 12 per cent, and of 14.5 per cent in the first half of this year, a fact which entitles us to assert that we will be able to fill the gap in the above-mentioned period.⁹⁶

⁹⁶Nicolae Ceausescu, "Interview Granted to the Sudanese Daily 'El Sahafa', July 27, 1973," Romania: On the Way of Building Up the Multilaterally Developed Socialist Society Reports, Speeches, Articles, January 1973-July 1973, (Bucharest: Meridiane Publishing House, 1973), p. 726.

As important as the designation of developing country is to Romania economically and politically, it provides two other benefits that perhaps overshadow its economic value in terms of foreign trade. By using the argument of the need to reinvest substantial proportions of its national income in development, Romania is able to resist increases in Warsaw Treaty Organization defense obligations and to justify more intense extra-bloc trade ties than other Eastern European bloc states. It also provides domestic justification for government demands for more and greater sacrifices to further economic growth.⁹⁷

B. STRUCTURE OF THE ROMANIAN ECONOMY

1. Agricultural Versus Industrial Emphasis

Before World War II, Romania had a predominantly agrarian economy. Approximately three-fourths of the population lived in rural areas and worked in the agricultural sector. Industrial development was mainly associated with the production of raw materials for export. In 1938, the peak year of the pre-war Romanian economy, industrial employment accounted for only eight percent of the total work force.⁹⁸ The situation in the immediate postwar years was even worse, in part because the Soviets had confiscated the bulk of the

⁹⁷Nelson, p. 43.

⁹⁸Tsantis and Pepper, p. 1.

Romanian industrial equipment as well as entire production plants as war retributions. In 1948, "the potential of Romanian industry reached only half the pre-war levels in certain branches."⁹⁹

Contrast with the Romanian economy today is striking. Less than thirty percent of the population is now employed in the agricultural sector--a 45 percent change in the demography of the labor force. By way of comparison, only 35 percent of the Soviet population was involved in agriculture in 1959; over the following 20 years, the number dropped to 23 percent, representing only a 12 percent shift in the labor force.¹⁰⁰

Population shifts to urban areas and industrial employment account for almost half of the Romanian labor pool. It is worth noting, however, that during the period of transfer of such a large segment of the population from rural population to non-agricultural sectors, farm output continued to rise. The rate of increase in productivity for the 1971-75 Five-Year Plan was three times that of the previous plan.¹⁰¹

⁹⁹Leonte Tismaneanu and Rolica Zaharia, Present and Prospect in Romania's Social and Economic Development, translated by Andrei Bantas, (Bucharest: Meridiane Publishing House, 1977), p. 85.

¹⁰⁰Alex Pravda, "Is There a Soviet Working Class?" Problems of Communism, Volume 31, Number 6, November-December 1982, p. 4.

¹⁰¹Tismaneanu and Zaharia, p. 127.

Although agriculture is still a major component of the Romanian economy, the real growth under socialism resulted from efforts to expand the industrial base. Not only did the existing extractive industries increase their output, but a broader spectrum of products began to appear in Romania.

Romania--a country which before the Second World War used to import all machinery and equipment almost without exception, now produces power generators..., drilling installations..., vessels of up to 55,000 tons dwt, automation installations, administrative and process electronic computers, complex technological plant for the chemical, metallurgical, mining and building materials industries, etc. Particular scope has also been assumed by the industries building motorcars, motor buses and trucks, high capacity tractors, farming machinery, Diesel and electric locomotives, aircraft and helicopters, as well as installations for the food industry.¹⁰²

This change in economic emphasis is demonstrated by the dramatic shift in the types of products that Romania exports. Virtually all of Romania's foreign trade prior to World War II consisted of unprocessed agricultural and wood products and petroleum. By 1975, this pattern of foreign trade had been completely modified. Today industrial goods constitute 55 percent of Romanian exports.¹⁰³

To put these data in perspective, it is important to realize that the Romanian definition of industry is unusually broad. It includes all of the following economic activities:

¹⁰²Tismaneanu and Zaharia, pp. 102-103.

¹⁰³Tsantis and Pepper, p. 9. For trade data, see Appendix B; graphic displays of the economy are in Appendix C.

extraction of fuel and mineral resources; all functions associated with thermoelectric and hydroelectric energy except for the distribution accomplished by public utility enterprises; processing of raw materials, except for that conducted in private homes; repairs of machinery, equipment, and consumer goods; and cold storage plants.¹⁰⁴

2. Formal Structure of the Romanian Economy: Organizations Involved in Economic Functions

The formal structure of the Romanian economy adheres strictly to the fundamental socialist principle of central-planning and control of economic development. Official organizational structure for administration of the economy and the social institutions affected by it are drawn directly from the basic theoretical model of socialism.

The most important organization in economic matters, as well as in all other matters in Romania, is the Romanian Communist Party (RCP). Officially, the RCP holds its Party Congress every five years and determines the overall direction in which the economic development should proceed for the next five years. It then issues the directives that become guidelines for planning.

According to the Romanian Constitution, the Grand National Assembly is the parliamentary body which adopts the laws governing economic activity. Its permanent commissions

¹⁰⁴Tsantis and Pepper, p. 191.

provide advice on pertinent legislation. It elects the State Council, which is responsible for the administration of all laws.

The Supreme Council of Economic and Social Development is the officially designated chief advisory and deliberative agency in the planning field. It consists of 150 to 260 members who represent all aspects of Romanian economic and social life.

Of the 57 positions on the Council of Ministers, 39 are directly related to economic matters. As the highest body of state administration, the Council of Ministers is formally responsible for managing all economic and social activities in the country.

The State Planning Committee is the agency that is officially responsible for drafting annual and five-year economic plans and overseeing their implementation. It coordinates Romanian economic plans with the Council for Mutual Economic Assistance.

For each major sector of the economy, the formal economic structure provides a Technical Ministry responsible for planning. The Centrals are independent units subordinate to the ministries that assist in administration of the enterprises, the lowest level of official economic organization. Enterprises are the units which execute the plans. They are responsible for production and distribution of goods, as well as oversight of trade and services.

The Agencies for Economic Synthesis are officially designated, national-level organizations that deal with the aspects of the economy which pertain to all sectors, such as finance, labor, and statistics.¹⁰⁵

The formal structure of the Romanian economy designates those organizations and agencies which are responsible for development and implementation of economic plans. Theoretically, the functions, relationships, and responsibilities defined within this structure ensure that the economic plans are products of coordinated effort and reflect the needs and desires of the population as well as the economic potential of the country.

In practice, however, this elaborate apparatus does not control the economic sphere of activity. It is not even the most influential factor in economic affairs. Party and state leaders make all the decisions of any consequence--the general direction that economic development should take; the sectors to receive particular emphasis, to be restricted in growth, or to be allowed to drift at established levels of production; and the laws that need to be effected. The components of the formal structure legitimize these decisions through unanimous approval at the Party Congresses and the subsequent dissemination of policy statements to support the decisions.

¹⁰⁵Tsantis and Pepper, pp. 39-42.

3. Composition and Distribution of the Work Force

In 1978, the last year for which complete figures are available, Romania had a population of 21.8 million. The working age population, consisting of males from 16 to 64 years of age and females from 16 to 59 years of age, was 12.4 million, or 56.6 percent of the population. The occupied population¹⁰⁶ numbered 10.3 million, or 47 percent of the population.

The following distribution of employment among the economic sectors existed in 1978: agriculture and forestry, 3.5 million, or 33.7 percent; industry and construction, 4.3 million, or 42 percent; other "productive" sectors, including trade, transportation, and communications, 1.3 million, or 12.3 percent; and "non-productive" sectors, such as housing, education, health, and administration, 1.2 million, or 12 percent.

Seven million people, 67.7 percent of the occupied population, were employed in state or cooperative enterprises excluding agriculture. Females accounted for 36.2 percent of this group.

Members of agricultural cooperatives and privately employed persons are categorized as non-employees in Romanian records. This group constituted 32.3 percent of the labor

¹⁰⁶"Occupied population" is that portion of the population actively employed in all sectors of the economy, excluding job seekers and military trainees.

force, with 3.3 million on agricultural cooperatives and four hundred thousand in private employment.¹⁰⁷

4. Trade Relations

Romania's policy on trade is driven, in large part, by the need for raw materials and investment goods to sustain industrial growth. In order to meet this need, Romania maintains a range of relationships: with the other socialist countries, with developed market economies, and with developing nations.

An example of the diversity of Romania's trade policy is its membership in international economic organizations. Romania was one of the original members of the Council for Mutual Economic Assistance (CMEA) in 1949. As an expression of opposition to the Soviet attempt to create a supranational organization of the socialist countries in 1964, Romania did not join the CMEA's International Bank for Economic Cooperation (IBEC) when it was established. However, production problems and the need for credit assistance prompted Romania to reconsider that decision. Romania did join IBEC in 1971, but only after much negotiation. The result of the negotiating sessions was a change in IBEC's constitution, guaranteeing equal rights and sovereignty of each member nation.¹⁰⁸

¹⁰⁷Marvin R. Jackson, "Perspectives on Romania's Economic Development in the 1980s," in Romania in the 1980s, ed. Daniel N. Nelson, (Boulder, CO: Westview Press, 1981), p. 257.

¹⁰⁸Sharp, p. 93.

In 1973, Romania became the first CMEA member to join the International Monetary Fund (IMF). Yugoslavia, the only other socialist member of the IMF, has observer status but is not a CMEA member. Romania also joined the World Bank; it is an active participant in the General Agreement on Tariffs and Trade (GATT); it belongs to the United Nations Committee on Trade and Development (UNCTAD) and the International Bank for Reconstruction and Development (IRBD).

The Soviet Union remains Romania's largest single trading partner, but total Romanian trade within the CMEA is significantly less than the 1960 figure of 67 percent. The latest Romanian figures, based on 1979 statistics, indicate the following distribution of trade:

CMEA (Albania, Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Poland, Soviet Union)	35 percent
Communist Countries (CMEA, China, North Korea, Vietnam, Yugoslavia)	43 percent
Developed Market Economies (Austria, Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States)	37 percent
Developing Countries (Algeria, Argen- tina, Brazil, Egypt, Greece, India, Iran, Iraq, Israel, Jordan, Lebanon, Libya, Portugal, Spain, Syria, Turkey)	20 percent
	109

¹⁰⁹International Trade Administration, U.S. Department of Commerce, Foreign Economic Trends and Their Implications for the United States--Romania, (Bucharest: American Embassy, July 1981, p. 8 and Tsantis and Pepper, pp. 574-577.

Categorization of Greece, Portugal, Spain, and Turkey as "developing countries," based on economic output and standards of living, is technically justifiable. More importantly, however, it permits Romanian economic officials to mask the true extent of trade relationships with the West.

A particularly interesting feature of Romanian trade relations is the joint ventures for technical and scientific exchange and cooperative production. The first type of joint venture involves primarily geologic exploration and construction of industrial units in other countries. Such projects provide access to raw materials as well as markets for Romanian products. Although most efforts have been concentrated in the Middle East and Africa, some have been made with Western Europe.

The second type of joint venture involves foreign capital investment in Romanian production companies. This type of project benefits Romania by providing new production lines and upgrading existing lines. It also contributes to dissemination of technical and organizational knowledge through the training programs in the plants.¹¹⁰

Approximately 120 joint ventures of this type currently exist. The following three examples, in each case the first concluded with the country specified, illustrate the broad scope of projects involved: Italy has a joint venture

¹¹⁰Tsantis and Pepper, pp. 125-127.

with Romania to make acrylic fiber yarns; Germany is a partner in a venture to make ship gears; and an American company, Control Data Corporation, is a minority partner in an electronics firm that manufactures printers, card punchers, and other computer peripherals.¹¹¹

C. ECONOMIC DEVELOPMENT UNDER THE COMMUNIST REGIME

Throughout most of its history, Romania has been one of the least developed countries in Europe. As recently as World War II, it had a traditional agrarian economy and lifestyle. The vast majority of the population, upwards of 75 percent, lived in rural communities. Despite the amount of manpower devoted to agriculture, the population existed near the subsistence level. Only minor industrial development, primarily in forestry and oil production, had occurred. It employed only eight percent of the labor force.

The effects of World War II on the Romanian economy--the destruction of property, depletion of manpower, and disruption of the system--are understandable. The aftermath of the war, however, could not have been predicted and was even more disastrous. Romania's economic recovery was prevented for the next five years by the actions of the Soviet Union.

World War II had devastated the Soviet Union. Its economy, which could not have been considered highly developed

¹¹¹John Pearson, "Inside Romania: East Europe's Pacesetter," Business Week, December 1, 1973, pp. 40-41.

before the war, was completely shattered. To overcome its severe economic problems, the Soviet Union began to use its new position as a world power to rebuild its economy at the expense of the countries under its domination. Stalin's policy toward the Eastern European countries was directed toward extracting from them, at the least cost, everything that could possibly be of any value to the Soviet Union. Although this policy had extremely damaging effects on the economies of the entire region, Romania, by any standard, suffered the most.

Although, at the end of the war, Romania switched to the Allied side, the Soviets chose to focus on its earlier alliance with Germany and treated Romania as a conquered enemy. This attitude "legitimized" the first two of the four distinct forms of economic exploitation to which the Soviet Union subjected Romania in the immediate postwar years.

First, the Soviet Union exercised the traditional practice of victorious powers--pillaging the land of the beaten enemy. In the case of Romania, however, the Soviet Union far exceeded any previous concept of "war booty." The entire Romanian navy, vast quantities of equipment from the oil industry, and half the rolling stock of Romania's railways were confiscated.¹¹²

¹¹²David Floyd, Rumania: Russia's Dissident Ally, (New York: Frederick A. Praeger, 1965), pp. 33-34.

Second, as a conquered nation, Romania was required to pay war reparations to its conquerer, the Soviet Union. This payment occurred in the form of capital goods, particularly oil, timber, and grain. Under this policy, "capital goods valued at some \$2,000,000,000 were removed by 1948."¹¹³ In addition, Romania had to pay for the cost of supporting the Soviet occupation forces on Romanian soil during this time.

Third, to take advantage of Romanian property that could not be physically removed from the country, the Soviet Union instituted a series of joint Soviet-Romanian companies to manage industries. "Sovrom" companies, which gave the Soviet Union complete control over output, "became the symbols of Soviet economic exploitation of satellite economies."¹¹⁴ Joint companies were set up to handle every possible sector of the Romanian economy--from transportation to banking, from oil production to the building industry. "In effect, the joint company turned the main branches of Rumanian industry into appendages of the Soviet economy."¹¹⁵

Fourth, a series of trade agreements provided for supply of Soviet raw materials and equipment to Romania in return for their manufactured goods. These agreements effectively

¹¹³Charles and Barbara Jelavich, eds., The Balkans in Transition, (Berkeley, CA: University of California Press, 1963), p. 162.

¹¹⁴Floyd, p. 32.

¹¹⁵Ibid., p. 33.

eliminated any possibility for Romanian trade with countries other than the Soviet Union and the Soviet bloc of Eastern Europe.

The exploitation of the Romanian economy by the Soviet Union in the immediate postwar period was directed predominantly against Romania's limited industrial component. Changes were, however, occurring in the agricultural sector in this same time frame.

The first change was a result of the land reform measure enacted in 1945. This program expropriated, without compensation, all private holdings of land over 50 hectares in size and redistributed the property to poor peasants. "The declared aim of this measure was to increase the size of existing dwarf farms to five hectares, and to create new farms of that size. Another major purpose of this measure was to reduce the opposition of the peasants to Communism."¹¹⁶ To this end, this expropriation of property was not accompanied by persecution of the owners.¹¹⁷

Subsequent change differed significantly. There was no attempt to legitimize government actions in order to preclude peasant opposition. "After a short interlude of wooing the

¹¹⁶Robert F. Byrnes, gen. ed., East Central Europe Under the Communists, (New York: Frederick A. Praeger, Atlantic Books, 1957), Romania ed. by Stephen Fischer-Galati, p. 202.

¹¹⁷Ghita Ionescu, Communism in Rumania 1944-1962, (New York: Oxford University Press, 1964), pp. 191-193.

peasantry with promises and the 1945 land redistribution, the government began...collectivization."¹¹⁸ A new land reform law was passed in March 1949. This time, the government expropriated all property over 50 hectares, including land held by government agencies, crown lands, church estates, land belonging to institutions, and certain categories of large peasant farms. This time, persecution of the owners was common, with evictions and deportation to unknown destinations the norm. There was no effort to redistribute the land under the new land reform. It was immediately turned into collective farms. By the end of the year, 56 collectives had come into existence.¹¹⁹

The establishment of the Socialist Republic in 1948 coincided with the loosening of the Soviet stranglehold on Romania and initiated a major transformation of the country's economy. The new regime established one-year economic plans in 1949 and 1950, following the Soviet example of central planning, which emphasized industrialization and improved agricultural production. It set out to achieve its objectives through capital investment in industry and collectivization of agriculture. Through a series of Five-Year Plans for development, Romania converted a country with a predominantly agrarian, traditional economy, ravaged by an exploitative

¹¹⁸Fischer-Galati, Romania, p. 207.

¹¹⁹Ionescu, p. 107.

Soviet policy for five years, into a modern, industrialized state in less than three decades.

1. 1951-1955 Five-Year Plan

The first attempt at central planning in Romania produced a plan of all-round development and industrialization. It placed great emphasis on the machine building industry, since this sector would produce the equipment necessary for improvements in other industries. The plan also called for a 57 percent increase in the productivity of labor. It identified ten principal commodities for which production targets were established: crude oil, coal, natural gas, cement, lumber, electric power, steel, pig iron, iron ore, and rolled steel.¹²⁰

The period of the first industrialization drive realized a high measure of success until 1953. Investment more than doubled and industrial output rose by almost 70 percent. Progress in this period illustrated the interdependence of sectors, the importance of foreign trade, and the priorities of industrialization policy. This rapid growth could not be sustained, because the growth in export goods could not meet requirements for both internal needs and exports. In addition, the pace of industrialization created imbalances in other sectors of the economy. Consumer goods industries received little investment. Collectivization of agriculture

¹²⁰Ionescu, pp. 191-193.

occurred fitfully--at times, forced collectivization was the rule; at others, consolidation of existing collectives was emphasized. Throughout the period, agricultural production slowed. Urban housing did not keep pace with the need, and migrations to towns slackened.¹²¹

2. 1956-1960 Five-Year Plan

The second five-year plan reflected the Council for Mutual Economic Assistance (CMEA) attempt to harmonize planning efforts in Eastern Europe. Romania's contribution to this effort was to specialize in oil, methane, gas, cellulose, timber, the chemical industry, and specific equipment such as tractors and trucks.¹²² Production targets for these items were less ambitious than had been the case in the initial plan. Efforts to collectivize the farms, begun under the first plan, were to continue. These included incentives to the farmers to join cooperatives and reductions in quotas for cereal production.

Machine building and chemicals maintained their high rates of growth. The annual rate of growth in the socialist sector dropped to less than three percent compared with ten percent under the first plan. The resultant decrease in the rate of urbanization helped to ease the housing shortage.¹²³

¹²¹Tsantis and Pepper, p. 460.

¹²²Ionescu, p. 251.

¹²³Tsantis and Pepper, p. 461.

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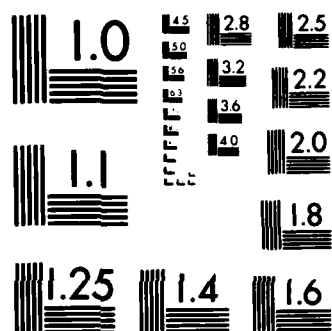
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3. 1961-1965 Five-Year Plan

Developments in the economic interrelationships of Soviet-bloc countries, within the context of the CMEA, had a significant effect on the direction of Romania's 1961-1965 Five-Year Plan. In the mid-1950's, the CMEA began to evolve from a relatively ineffective organization concerned only with commercial relations to one whose purpose was to plan and direct the economic activity of the entire bloc. The concept of a "socialist division of labor on an international scale," which would coordinate economic plans, make the region self-sufficient, and avoid duplication of production effort, began to form.

Eventual elaboration of this concept was Khrushchev's 1962 proposal for a supranational organization in which each country would concentrate only on the economic sectors in which it already excelled or had the best resources. This meant that Romania and Bulgaria would emphasize agricultural production and the extractive industries. They would provide these primary goods to the industries in other countries for processing into manufactured goods. The Romanian leadership correctly perceived this proposal as an attempt to prevent the country's industrialization and development.¹²⁴

The Romanian government, then headed by President Gheorghe Gheorghiu-Dej, maintained that economic planning is

¹²⁴Tsantis and Pepper, p. 461.

a national prerogative and refused to relinquish any part of Romanian sovereignty over its economic policy. Romanian objections were sufficiently strong to defeat the proposed multilateral central planning unit in CMEA in 1963.

This conflict over the economic sovereignty issue was the first open defiance of Soviet policy in the CMEA forum by a bloc country. It was a foretaste of the independent economic and political actions which have since become the trade mark of Romanian foreign policy. The Soviet-Chinese rift in the 1960's provided the appropriate political climate for Romanian challenges to Soviet policies to succeed.

In April 1964 the Romanian Central Committee issued a statement which has been described as a 'Declaration of Independence' in economic as well as political matters. In the economic area, they asserted the right to develop their own natural resources. In political affairs they rejected the idea that any communist party was superior to another, claiming the right of each party to develop its own policies.¹²⁵

Romanian President Gheorghiu-Dej refused to take sides in the Sino-Soviet dispute and maintained relations with China, as well as with Albania and Yugoslavia, two other socialist countries in Soviet disfavor. Such actions supported references to Romania as the maverick of the Soviet bloc.

When Nicolae Ceausescu assumed leadership of Romania in 1965, after the death of Gheorghiu-Dej, he continued to follow the independent policy. Romania was the first country

¹²⁵Sharp, pp. 92-93.

in Eastern Europe to establish diplomatic relations with West Germany; it refused to support Soviet and Eastern European denunciations of Israel after the 1967 Arab-Israeli war; it maintained diplomatic relations with Israel after the 1973 Mid-East conflict; it supported the Dubcek regime in Czechoslovakia and refused to participate in Warsaw Pact intervention in that country in 1968; it was the only bloc country that condemned the Soviet invasion of Afghanistan in 1979; it advocates dissolution of the North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Organization (WTO) or Warsaw Pact (WP); it supports a Balkan Nuclear Free Zone; and it is the only bloc country that calls for reduction of nuclear weapons by both superpowers.

Independent Romanian policy extends to its military relationship within the Warsaw Pact as well. The last Soviet occupation troops pulled out of Romania in 1959. Since that time, no Soviet troops have been permitted on Romanian soil. No Warsaw Pact exercises are conducted in Romania, and Romanian forces do not participate in exercises in other WP countries. In addition, Ceausescu unilaterally reduced Romanian contributions to the Warsaw Pact, arguing that Romania's "developing" economy could not support the expenditure.

Independent economic policy involves increased relations with the West. Typical examples are trade agreements with the European Community, joint production ventures, and International Monetary Fund membership.

All of these independent actions, to some extent, stem from the success of Romanian opposition to the 1962 Soviet proposal to create a supranational central planning unit within CMEA.

Perhaps because the Romanians sensed this trend in the late 1950's, a goal of the third five-year plan was to reduce Romanian economic dependence on the Soviet Union and the more developed countries of Eastern Europe. This goal was to be achieved through creation of an expanded industrial base supported by its own resources. Investment in agriculture was to be increased to finance collectivization and to build up the productive capacity of the state farms.

Economic growth during this period was rapid. Industry met most of its targets. Agriculture was fully collectivized in 1962. Foreign trade was in balance through 1961.

Once again, agricultural production lagged behind the rest of the economy in growth rate. It remained at only two percent per year through 1965. A poor harvest in 1961-62 reduced available exports, which in turn resulted in a slower rate of investment in agriculture from foreign trade. Reallocation of food and consumer goods to external markets were major factors which prevented attainment of planned targets for growth in the consumer sector. This resulted in an overall decline in the standard of living.¹²⁶

¹²⁶Tsantis and Pepper, pp. 462-463.

Ignoring the consumer sector, however, the Romanian economy had made impressive strides during the period of the first three five-year plans. As a result of the successful completion of agricultural collectivization and the achievement of industrial production targets, the Romanian Communist Party considered that the basic foundation for a drive to Communism had been laid in the country. It believed that stable economic growth could be maintained in the future. Therefore, in 1965, it took the significant step of proclaiming the Socialist Republic of Romania,¹²⁷ thereby claiming for itself, at least in name, equality with the Soviet Union with regard to socialist development.

4. 1966-1970 Five-Year Plan

The fourth five-year plan projected the continued pattern of growth identified in the 1961-65 plan, but at a lower rate. The rate of increase in gross industrial production was to be smaller; however, growth rates in chemicals and machine building were to be particularly high to permit a large increase in their export. The target for growth in consumer goods was higher than in previous plans. Gross production in agriculture was to increase by as much as 26-32 percent compared with the previous five years. Investment allocations were to take into consideration regional criteria to reduce inequities in production and income.

¹²⁷Tsantis and Pepper, p. 463.

During the five-year period covered by this plan, industry and investment overfulfilled their targets; agriculture and retail sales had shortfalls. Imports rose rapidly, but exports failed to keep pace. To compensate for the resultant imbalance of payments, the government reduced its planned improvements in living standards. Even so, the foreign debt mounted. At the end of the five-year period, foreign debt stood at more than 900 million lei valuta.¹²⁸

5. 1971-1975 Five-Year Plan

Guidelines for the fifth five-year plan emphasized a continuation of higher investment rates, the pre-eminence of industry, greater labor productivity and economic efficiency, and the introduction of improved technology throughout the economy.

Once again, Romanian industrial production and investment overfulfilled planned targets, resulting in an 11.6

¹²⁸Tsantis and Pepper, p. 465. Leu (plural lei) valuta is a term that expresses the formal gold value of the Romanian currency at any given point in time. Such a device is necessary because the leu is not a convertible currency and cannot be compared directly to world market values. The official rate is used only in government foreign trade statistics. It is set at 4.47 lei per dollar (US). For business or personal transactions, the conversion rate was 18 lei per dollar through 1980. Between 1980 and July, 1983, the leu valuta stood at 16.5 lei per dollar. On July 25, 1983, the leu valuta rose to 17.5 lei per dollar in commercial transactions and 13.5 in non-commercial (tourist) transactions. These rates are well above the black market rate in Romania. Stating the hard currency debt in these terms effectively undervalues it. What Romania can get for its exports is considerably less than the prices the government quotes in lei valuta.

percent rate of growth throughout the period. Once again, agriculture was the only major productive sector which did not meet its planned target, and its growth was 25.4 percent for the period.

National income increased at an average rate of 11.3 percent. Exports, which included a marked increase in industrial products, grew at an annual rate of 19 percent, while imports, heavily oriented toward industrial producer goods and raw materials, grew by 18 percent per year. Private consumption increased at an average annual rate of 8.5 percent, reflecting the government policy that retail sales should grow more slowly than national income.¹²⁹

6. 1976-1980 Five-Year Plan

Goals of the sixth five-year plan included improvement in regional distribution of production and incomes, an overall growth in national income of 10-11 percent per year, internal scientific and technological development, and reduced consumption of energy and raw materials. Additionally, efforts were made to improve the efficiency of production and improve the quality of goods.¹³⁰

Between 1972 and 1978, Romania experienced a period of sustained economic growth that resulted in the doubling of

¹²⁹James Wein, "Romania's Central Planning Used to Keep Investment Ratios and Growth Rates High," IMF Survey, Volume 7, Number 12, June 19, 1978, p. 188.

¹³⁰Tsantis and Pepper, p. 13.

national income. Real gross national product increased 7.5 percent, while agricultural production grew at a rate of six percent.¹³¹

By 1980, this rosy picture had deteriorated. An earthquake in Bucharest in 1977 extensively damaged most industrial facilities in the city. This devastation was compounded by a poor harvest for three consecutive years, the rising cost of oil and raw materials, and an explosion in a large petrochemical plant.¹³²

Exacerbating these problems was a record of bad management decisions. Primary among them and typical of their effects was the emphasis on the petrochemical industry.

Although no one in Romania could have been expected to anticipate the fall of the Shah and the resultant decline in oil exports from Iran, Romania's decision to invest so heavily in its oil refining industry can still be considered a mistake. As its own oil supplies began to diminish in the mid-1970's, Romania imported oil from the Mid-East. These imports, for which Romania paid spot market prices, coupled with the cost of industrial production equipment necessary to

¹³¹East European Division, IMF European Department and Bureau of Statistics, "Internationally Comparable Data on Romania to be Reported Regularly in New IFS Page," IMF Survey, Volume 9, Number 11, June 3, 1980, p. 168.

¹³²Joanne K. Salop, "Exchange, Price Reform are Key Elements in Romania's New Stabilization Program," IMF Survey, September 7, 1981, p. 262.

process it, placed a heavy strain on the Romanian economy. To finance this venture, Romania borrowed heavily from Western banks and governments. As a result, Romanian foreign debt rose to \$10 billion in 1981. Compounding the problem, most of the loans were short-term, which means payment for almost all of them comes due at the same time.

Besides the foreign debt problem, three other considerations demonstrate the Romanian government's poor management in its decision to concentrate so heavily on this sector of the economy. First, to compensate for loss of oil from the Mid-East, which ended with the Iran-Iraq war in 1978, Romania turned to its CMEA trading partner, the Soviet Union. Far from getting the oil at the reduced rate the Soviet Union charges its CMEA partners, however, Romania was required to pay the same price for Soviet oil as it had paid for Mid-East oil, and payment had to be in hard currency. This was not only a harsh blow to the Romanian economy; it also makes Romania more dependent on the Soviet Union.

Second, because the price for refined petroleum products has not kept pace with the cost of crude oil, Romania is running refineries at only 50 percent capacity. What was to be a source of hard currency earnings has turned into a symbol of the failure of the Romanian style of management.¹³³

¹³³Lawrence Minard, "A Balkan Despotism," Forbes, Volume 127, Number 10, May 11, 1981, p. 132.

Finally, this ambitious, though ill-advised, project with oil refining was conducted at the expense of investment in other economic sectors, most importantly agriculture. By steering investment away from agriculture, which realistically is the mainstay of the Romanian economy because of its immense importance to export trade, the Romanian government has contributed to its food import headaches.¹³⁴

7. 1981-1985 Five-Year Plan

The current five-year plan has three major goals: increased agricultural productivity, development of exports to reduce reliance on high interest credits, and stabilization of energy expenditures.¹³⁵ In addition, special attention will be given to metallurgical processing equipment.

It seems doubtful that Romania is going to fulfill the objectives of its current five-year plan. Agricultural production has not improved; at the beginning of 1982, Ceausescu admitted that the grain harvest was six million tons below its production target.¹³⁶ The worldwide recession reduced markets for Romanian goods, even if there were sufficient goods available for export. In order to export goods,

¹³⁴John S. DeMott, "Now It's Cash-Strapped Romania," Time, Volume 119, Number 19, March 8, 1982, p. 84.

¹³⁵Edgar D. Fulton, "New Trade Policies Aim at Export Development," Business America, Volume 4, Number 15, July 27, 1981, p. 20.

¹³⁶John Darnton, "Poles' Neighbors Fear Spread of Unrest," New York Times, February 22, 1982, p. 8A.

the consumption sector would have to be reduced. At a time of severe shortages, it would not be advisable to cut back still further on consumer goods to supply the export market.

"Signs of economic decline are everywhere. Romanian consumers are accustomed to demands for sacrifices in the name of economic development, and they have long been putting up with the lowest standard of living in the whole of Eastern Europe. But recently things have gotten even worse."¹³⁷

With agricultural production once again below target, food shortages have become acute. In early 1982, the government instituted a series of price increases and rationing in such staples as meat, sugar, cooking oil, and butter.¹³⁸ In October, 1981, Romania had become the first country in Eastern Europe to ration bread.¹³⁹

The most obvious signs of economic decline are the austerity measures in effect throughout the country to deal with the severe energy crisis Romania is experiencing. Homes and public buildings go without heat, electricity, and hot water for hours each day. About two-thirds of Bucharest's lights are out--even more outside the city. Museums and most

¹³⁷"Digging In," Economist, Volume 278, Number 2174, February 28, 1981, p. 46.

¹³⁸"More Gloom for the Rumanians: 5-Year Plan Lags," New York Times, December 19, 1982, p. 8.

¹³⁹"A Whiff of Trouble to Come," Economist, Volume 281, Number 7208, October 24, 1981, p. 37.

tourist attractions remain completely dark unless visitors are actually present; lights are extinguished as soon as visitors leave. Gasoline is rationed; public transportation has been reduced by 30 percent.

People are trapped in elevators because of rotating power blackouts. Patients wait in the dark in hospital emergency rooms. Schools extend vacations to save on classroom utility costs. Home thermostats are set at a maximum of 65 degrees, partially because of the 20 percent cutback in electricity that occurred in 1982 and partially because the cost of home heating has risen 200 percent in the last year.¹⁴⁰

All the while, in the midst of austerity, the government exhorts the population to conserve energy even more. In a speech at a Romanian Communist Party conference in December 1982, Ceausescu declared that "resolute action must be taken to reduce electricity consumption by 10-15 percent."¹⁴¹

The only positive sight in an otherwise bleak economic picture for Romania is the fact that the International Monetary Fund and some Western banks have shown a willingness to reschedule loan payments. How often or for how long they will continue to do so is an open question. As long as Romania continues to meet its interest payments on the loans, it

¹⁴⁰"Romanians are Literally in the Dark," Monterey Peninsula Herald (CA), January 23, 1983, p. 5C.

¹⁴¹Ibid.

seems likely tht Romania will continue to receive support of this kind.

D. ECONOMIC DISSENT IN ROMANIA

With the economy in such a low state, and with the recent example of Polish economic activism (strikes, work slow down, Solidarity), the potential for economic dissatisfaction to erupt into open dissent and confrontation with the government cannot be overlooked. Romania has "the lowest living standard in Eastern Europe (discounting Albania) despite high growth rates."¹⁴²

Workers' complaints stress inequitable distribution of resources and inability to find quality consumer goods on which to spend their rising wages.¹⁴³ Workers also resent the fact that they are asked to defer the realization of material values, while there is little, if any, evidence of sacrifice on the part of the elite. "With its well-stocked shops, paved streets and modern apartment buildings, this little village (Scornicesti) stands out...in poverty-stricken southern Romania. It is the birthplace of the country's president and Communist Party leader, Nicolae Ceausescu."¹⁴⁴

¹⁴²"Goodbye Country Cottage," Economist, Volume 267, Number 7054, November 11, 1978, p. 57.

¹⁴³Nelson, p. 46.

¹⁴⁴"Romania's President Runs His Country 'Like a One-Man Show'," San Francisco Examiner-Chronicle, December 12, 1982, p. 12E.

Open dissent is a relatively recent phenomenon in Romania. The first political dissident movement, the first riot, and the first organized working-class strike all took place in 1977. These events reflect Romania's transformation into a more dynamic, heterogeneous society. They could not have occurred before the introduction of urbanization, mass communications, and better education, which have led to the development of a more highly sophisticated population. Romanians are becoming less willing to postpone immediate material gratification for a future socialist utopia.¹⁴⁵

The political dissident movement centered around author Paul Goma. In a letter to Pavel Kohout and the Czechoslovak Charter 77¹⁴⁶ dissidents, he declared his support for their movement. This was followed by the "Letter of the 8," an open letter to the Belgrade follow-on meeting of the Conference on Security and Cooperation in Europe (CSCE). Signed by Goma, his wife, and six others, the letter called on Romania to honor human rights as prescribed in "Basket III" of CSCE's 1975 Final Act in Helsinki.¹⁴⁷

¹⁴⁵Robert L. Farlow, "Romania: The Politics of Autonomy," Current History, Volume 74, Number 435, April 1978, p. 169.

¹⁴⁶Charter 77 was a dissident group's declaration detailing Czechoslovak human rights violations, such as denial of higher education opportunities to young people because of their or their parents' political views and the almost total lack of Constitutionally-guaranteed free public expression. It was published in Western newspapers in early January 1977.

¹⁴⁷For text of "Basket III," see Appendix D.

The "Letter" was extremely embarrassing to the Romanian regime. To deal with the situation, it applied a skillful combination of concession and coercion. Ceausescu harshly denounced the dissidents in public, calling them "traitors." Goma was arrested in April; but in November he was released, expatriated, and "exiled" to Paris. In May, the government allowed 142 persons, many of whom had also signed the "Letter of the 8," to leave for Austria. This combination of intimidation and forced or permitted emigration enabled Romanian officials to contain the dissident problem, which involved mainly intellectuals from Bucharest.

The riot occurred in Bucharest in June when a crowd gathered for a concert at the stadium turned into a mob. The situation began when city officials overbooked the stadium for the concert. Those unable to get their seats became so incensed over the obvious bureaucratic inefficiency that they stormed the stadium, ripped down political propaganda, and clashed with police.¹⁴⁸

The strike broke out spontaneously in the Jiu Valley coal mining region. It began as a protest against revision of the law regulating pensions. According to the pension law established in 1966, pensions were required to "represent 70 to 100 per cent of the tariff wage for the employees in very arduous or very dangerous jobs, 65 per cent up to 95 per cent

¹⁴⁸Farlow, p. 169.

for those in arduous and dangerous jobs, and 60 per cent up to 90 per cent for the other labour categories.¹⁴⁹ The new law was to apply a more restrictive formula. The strike soon took on a broader perspective and became a demonstration against the low standards of living, food shortages, poor working conditions, unpaid overtime work, reduction in sickness benefits, and poor equipment. Workers in Bucharest, Braila, and Tirgu-Mures reportedly followed the miners' lead and engaged in work stoppages.

Massive police and army reinforcements sent to the Jiu Valley led to confrontations, but the miners would not concede. Entrances to the mines were blocked. Workers closed and occupied the mining offices for as long as a week. When Labor Minister Gheorghe Pana and Permanent Bureau member Ilie Verdet arrived to deal with the situation, the miners seized them and held them hostage.

Summoned from his Black Sea vacation, Ceausescu himself travelled to the Jiu Valley. Surrounded by armed bodyguards, he spoke to the strike leaders and an assembly of miners. He warned the strikers that unless Romania could maintain order and discipline, it would be trampled underfoot--an obvious reference to the Soviet Union. He promised investigations of

¹⁴⁹Nicolae Ceausescu, Speech Delivered at the Plenary Meeting of the Central Committee of the Romanian Communist Party, October 12-14, 1966 (Bucharest: Meridiane Publishing House, 1966), p. 13.

working conditions, reform of secondary aspects of the pension law, reorganization of mines' management, and a five percent pay raise. Ceausescu also promised the miners there would be no retribution for their actions. For the moment, his personal intervention had defused the situation. Shortly afterward, the miners returned to work.

Later, Ceausescu reneged on his promises. Some of the strike leaders were fired; others were sent to work in other mines or on collective farms; wages were docked for nonfulfillment of production goals. Military police sealed off the valley, and security police infiltrated among the miners. The government had managed to contain the incident, but there was widespread resentment over the crackdown by authorities and the intimidation of the workers.¹⁵⁰

The most important element that these incidents have in common is that each was an independent act and addressed issues relevant only to the particular group involved. The "Letter of the 8" was an intellectual exercise; it said little about workers' rights and interests; the riot concerned only the immediate frustration of the people who had been unable to get seats for the concert; the workers' strike concerned issues of safety and workers' pensions, which elicited little, if any, comment from intellectuals. The Romanian

¹⁵⁰J.M. Montias, "Economic Conditions and Political Instability in Communist Countries," Studies in Comparative Communism, Volume 13, Number 4, Winter 1980, p. 294.

intellectuals had not yet developed "a 'critical mass' of open dissidents who might, in the Polish fashion, seek contact with a working class, at least segments of which had shown a readiness to fight."¹⁵¹

There is no single, unifying factor between Romanian intellectuals and workers. Unlike the Polish situation, religion does not provide a common rallying point for dissidents. Romania's Orthodox Church backs the Ceausescu regime on foreign policy and it remains silent on domestic issues. In return, the regime provides material support to the church. As part of the relationship, the clergy is required to take an oath of allegiance to the government.¹⁵²

The Romanian constitution officially permits freedom of religion. The government does not interfere with Orthodox services or religious gatherings. Consequently, religious practice is open and well-attended. However, the government does try to undermine religious influence. It subtly competes for the "hearts and minds" of Romanian youth by intentionally scheduling mass activities, like rallies or group outings, on Sundays and religious holidays.¹⁵³

¹⁵¹Walter D. Connor, "Dissent in Eastern Europe," Problems of Communism, Volume 29, Number 1, January-February, 1980, pp. 10-11.

¹⁵²Farlow, p. 169.

¹⁵³Richard F. Staar, ed., Yearbook on International Communist Affairs 1982, (Stanford, CA: Hoover Institute Press, 1982), p. 177.

Approximately 80 percent of the Romanian population is nominally Romanian Orthodox. The remaining twenty percent is distributed among various religious denominations: Roman Catholic, 1.75 million; Calvinist, 1 million; Lutheran, 200,000; Jewish, 50,000; other Protestant sects, less than 1000 each.¹⁵⁴ Some religious dissent has occurred among the small Protestant sects, but it is not sufficient to disrupt the relationship between the church and the government.¹⁵⁵ It has not been strident enough to cause much concern.

A more pressing concern for the Romanian government is criticism of its treatment of the ethnic Hungarian population in Transylvania. The issue gained international attention in 1978 when Karoly Kiraly, a former high Romanian Communist Party (RCP) official of Hungarian background, released in the West several letters that he had sent to the RCP protesting discrimination against Romania's minorities, especially that against Hungarians.¹⁵⁶

A similar incident occurred in 1982, when 70 Hungarian intellectuals appealed to their government to protest Romanian discriminatory practices against ethnic Hungarians.¹⁵⁷

¹⁵⁴Staar, p. 177.

¹⁵⁵Minard, p. 177.

¹⁵⁶Staar, p. 72.

¹⁵⁷"Budapest Intellectuals Appeal for Hungarians in Romania," New York Times, November 23, 1982, p. 4.

Segments of the Hungarian minority have long perceived themselves to be second-class citizens in highly nationalistic Romania; and with regard to ethnicity, this may be justifiable to some extent. But, with regard to citizenship, Ceausescu "claims everyone--even a large Hungarian minority--as 'Romanians' in a common Romanian homeland regardless of ethnic origin."¹⁵⁸

In 1979, the second dissident group appeared in Romania. It was a short-lived group known as the Free Trade Union of Romanian Workers. The rise of this group can be attributed to the low standard of living and poor working conditions prevalent at the time. The union claimed support in a number of working centers throughout Romania. It complained of de facto unemployment, forced retirement, excessive work norms, poor wages, and involuntary political activity.¹⁵⁹ The government reaction this time was not what it had been in 1977. This time, the regime moved quickly against the leaders of the union. Organizers were arrested and sentenced to long prison terms. The movement appeared to dissipate; however, the fate of its imprisoned leaders still generates interest in the West.¹⁶⁰

¹⁵⁸Eric Bourne, "Education Tax Was Only One of Romanian Human Rights Abuses," Christian Science Monitor, March 8, 1983, p. 3.

¹⁵⁹Nelson, p. 48.

¹⁶⁰Staar, pp. 289-290.

The number and stridency of sporadic strikes and demonstrations in Romania in 1981 increased significantly. Two of the most important incidents occurred in November, once again in the Jiu Valley. When Ceausescu flew to the scene, as he had in 1977, his helicopter was stoned. Workers set a police station on fire in Motru, where they also seized control of the local Communist Party headquarters. In the process, one official was killed.¹⁶¹ In addition, strikes occurred at the mines in Leurda, Luporia, and Horasti as well as at the power station at Rogojelu.¹⁶² The situation was finally resolved when the military police moved in to remove the workers from the offices they had occupied.

It is interesting to note that the government dealt with each of these incidents as a single event, none of them connected to any other. The response of the regime to each new incident of dissent was unique to the situation. The government apparently did not perceive these incidents as part of a general trend toward dissent and dissidence in the country. Perhaps as a result, very little, if anything, was done to correct the underlying causes which prompted these eruptions of popular dissent since 1977.

¹⁶¹"Anti-Ceausescu Demonstrations in Jiu Reported," East European Foreign Broadcast Information Service, Volume 2, Number 220, November 16, 1981, p. H1.

¹⁶²"Strikes, Demonstrations Reported in Motru," East European Foreign Broadcast Information Service, Volume 2, Number 222, November 18, 1981, p. H1.

E. ECONOMIC REFORM

The rise of dissent in Romania in the late 1970's and early 1980's is substantial evidence of the need for reform in the Romanian economy; but the concept of reform is not a recent development. "Reforms have been initiated in all countries (of Eastern Europe)--Romania's first major reforms were in 1967-68--and have significantly modified the functioning of centrally-planned economies."¹⁶³ Although Romania tended to be more cautious than Hungary, Czechoslovakia, and Bulgaria in its reforms, the following tendencies were common to all Eastern European reform efforts of the late 1960's:

1. The number of compulsory planning index figures, which are intended to regulate economic activity closely, were reduced and replaced by a smaller number. Production was no longer judged in terms of quantity, but of quality. Profit became the main criterion of management.

2. Enterprises, singly or in a group, were granted a larger share of the net profit. This sum could be reinvested, used to finance new techniques, or kept as a bonus for the staff.

3. Control over investment was given, to some degree, to the concerns themselves. They could obtain supplementary credit from banks to make up for the abolition of subsidies.

¹⁶³Mark Allen, "The Structure and Reform of the Exchange and Payments Systems of Some East European Countries," IMF Staff Papers, Volume 23, Number 6, November 1976, p. 724.

4. The wage policy was revised. Reformers were determined to combat the long-established tradition of levelling, which favors skilled and non-skilled manual labor at the expense of managers, technicians, and research workers. Differentiation took place within the companies, the state simply fixing a minimum wage.

5. Mobility of labor increased; unnecessary work, even unprofitable enterprises would be eliminated.

6. Prices were revised. Prices of raw materials and approximately half the consumer goods were fixed by the state; other consumer goods were allowed fluid prices within prescribed limits; and prices of luxury items and new machines were decontrolled.

7. State enterprises which manufacture the same products were urged to compete with one another, to encourage them to try to improve the quality of their product and reduce price. Sale of imported goods had a roughly equivalent effect.

8. On the whole, reformers tended to preserve state prerogatives to represent the "universal interests of society," to fix the tempo of development, to decide on the main lines of national and regional development, to determine the differentiation between individual salaries, and to determine the rate of price increases.¹⁶⁴

¹⁶⁴Francois Fejto, A History of the People's Democracies, trans. Daniel Weissbort, (New York: Praeger Publishers, 1969), pp. 256-257.

The 1968 reforms of the Romanian economy were intended to relax some of the organizational constraints on industrial administration, particularly on lower echelons of the economic structure. They were also directed toward reduction in the number of areas under the immediate control of central planners. A third aim was to provide more scope for the production of consumer goods.¹⁶⁵

Another major reform of the Romanian economy was introduced in 1978 with the unveiling of the New Economic Mechanism. When he presented this program to the Grand National Assembly for approval, Ceausescu described the state of the Romanian economy as "too centralized, rigid, outdated, and very complicated." His economic reform proposal sought

to give greater latitude to individual enterprises to coordinate their activity with the central authorities, who are still charged with drawing up the central economic plan. Enterprises, however, will have leeway to: a) devise their own plan and annual budgets, which must be balanced; b) institute a profit-sharing system among the workers; and c) consult with workers (via the workers' councils) as to the best ways of achieving specified goals. Enterprises' productivity will be measured on the basis of net rather than gross output. Production will now be tied to domestic and foreign contracts.¹⁶⁶

This economic reform package reflected the guidelines and policies set forth in the 11th Romanian Communist Party (RCP)

¹⁶⁵Alfred Zauberman, "The East European Economies," Problems of Communism, Volume 27, Number 2, March-April 1978, p. 69.

¹⁶⁶Staar, p. 64.

Congress policy statement of 1975. This statement virtually gave advance RCP imprimatur to any reform measures the Ceau-sescu government chose to implement. The following excerpts from the statement demonstrate what deviations from the basic socialist model the RCP was prepared to accept:

The conditions of our society imperatively demand the single management of the entire economic and social activity....

Abiding by the principle of the single-plan based unitary management there will be continued actions for the expansion of the autonomy of the economic and social units in all spheres of activity; at the same time, it is necessary for developed autonomy, for incentive from the bottom to be achieved within the concept of single management....

Economic activity will be focused on the achievement of production with minimum expenditures; cost prices should faithfully reflect necessary production expenditures, bearing in mind the fact that the growth and efficiency of production are the decisive factors for increasing the nation's wealth. Special attention is to be paid to continuously raising social labor productivity by the mechanization, automation and cybernetization of production processes and economic activities, by the scientific organization of production and labour....

The production cost will have to ensure an optimum profitableness, reflecting in an adequate way the policy of enlarged production....The stability of the selling price of consumer goods will be pursued. Retail sales can grow only within the limits established by the plan according to the policy of raising the working people's living standard.... Selling prices on the international market will have to express an even higher turning to good account of products, the realization of equivalent and equitable exchanges.¹⁶⁷

¹⁶⁷Programme for the Building of a Multilaterally Developed Socialist Society, pp. 103-105.

Although the 1978 reforms went beyond these basic goals, an even more acute need for reform within the Romanian economy developed since that time. Years of neglect or limited investment have taken their toll on the agricultural sector. A shift in emphasis is necessary. President Ceausescu made this point during a speech before the Second Congress of Management Councils of Socialist Agricultural Units. While it is understandable that the delegates to this session would be receptive to remarks of this type, Ceausescu's remarks were directed at and publicized to a broader audience as well:

In light of the socialist construction experience in our country it becomes obvious that the thesis of priority industrial development to the detriment of agricultural development and modernization was responsible for neglecting the importance of increasing agricultural production. Application of that concept brought about disproportions in the general socio-economic development and had a negative impact on the people's living standard....

Shortcomings and failings recorded in the past five-year plan...were mainly due to organizational shortcomings in the leadership and organization of the agricultural sectors, to serious manifestations of bureaucracy in the work of central and local agricultural bodies, to an exaggerated concentration of forces on nonproductive activities, to insufficient supervision of the plan fulfillment and of the implementation of plan provisions, the law and party decisions, and to serious deficiency in the distribution of material and human resources.¹⁶⁸

Since this speech was made in February 1981, virtually nothing has been done to improve the condition of agriculture

¹⁶⁸"Scinteia Announces Speech to Management Councils of Agricultural Units," Foreign Broadcast Information Service, Volume 2, Number 35, February 23, 1981, p. H.2.

in Romania. In fact, investment in agriculture has declined by three percent since the previous five-year plan.

In January 1981, in response to the staggering effect of rising oil prices and a deteriorating balance of payments, the Ceausescu regime implemented still another New Economic Mechanism. To support the reform effort and pledges to cut Romanian deficits, the International Monetary Fund approved a financing arrangement to cover Romanian export shortfalls. Once again, however, the reform measures proved to be essentially cosmetic, with few substantive effects.

The reforms involved reassignment of producer prices to approximate more closely world market levels, simplification of the exchange rate system, adjustment of the domestic accounting system to monitor waste, and adoption of profitability for cost control.¹⁶⁹ No effort was made to address the serious management and planning deficiencies that caused and perpetuate Romania's economic woes. If the pattern in agriculture is typical of how the Romanian government plans to deal with economic problems, then it is not likely that the promised structural reforms in the economic system, providing for more individual initiative, will take place either.¹⁷⁰

¹⁶⁹Arthur S. Banks, ed., Economic Handbook of the World 1982, (New York: McGraw-Hill Book Company, 1982), pp. 434-435.

¹⁷⁰Mark Whitaker and Theodore Stanger, "The Next Basket Case," Newsweek, Volume 99, Number 15, April 12, 1982, p. 41.

V. CONCLUSION

Romania's transformation from an agrarian economy to an industrialized state is a remarkable achievement. What makes it even more remarkable is the fact that Romania accomplished this objective after its economy had been devastated by a war and by a severe exploitation process which literally removed its economic base.

Despite its tremendous growth over the last three decades, however, Romania still has one of the lowest standards of living in Europe. Its population has not benefitted in proportion to the upsurge in economic growth.

This paradoxical situation arises because of the unique characteristics of the Romanian economy. Romania is a socialist state which adheres to the principles of centralized planning, collectivization of agriculture, and heavy emphasis on industrial production, although there have been recent efforts to deemphasize these features. Emphasis on the industrial sector accounted for the rapid growth of the economy. It also contributed to the low standard of living by sacrificing investment in the consumption sector for greater investment in industry. Another factor contributing to the low standard of living is the tendency to sacrifice consumer goods to the export market. This helps to create a favorable balance of trade, but creates problems as well.

Such action reduces goods available for domestic consumption and also causes the economy to be extremely vulnerable to fluctuations in the world economy. This is what happened to Romania's economy in the last five-year period. The first two decades of its existence under Communist rule were good growth years for the Romanian economy. Rates of growth were steady and close to 10 percent on the average. But, in the wake of the oil crisis and resultant world recession, Romania's economy, so heavily dependent on its trade earnings in the West, was harder hit than most.

In addition to the effects of the world market on Romania's economy, the chronically poor management techniques employed within its centrally-planned economy began to take their toll in the late 1970's. Previous mistakes were overshadowed or excusable in light of the tremendous growth that was taking place. They were easily lost or forgotten in the general flurry of activity that occurred in Romania during the first two decades of its economic development.

When qualitative decisions, rather than quantitative, are required, the central planning mechanism is ill-equipped to deal with the situation. As a result, Romania's economy suffered a sudden, precipitous decline.

Besides the purely economic effects, the results of such poor management lead to dissent and demands for reform. The Romanian economy has experienced both; but the regime either chooses to ignore the underlying causes of these disruptive

features or it simply does not know how or is unwilling to correct them.

In some ways, Romania is much better off than some of the other countries of the Eastern European Communist bloc. It has established a maverick reputation for itself within the Soviet-bloc and has been a bit more free than the other countries in pursuing economic ventures, if it so chooses. Its admission to Western financial organizations in the early 1970's and the special trade agreements that it enjoys with the United States and many countries of Western Europe attest to this fact.

But, in other ways, Romania is not as well off as some of the other countries of the bloc. Because of its maverick actions, when its policies fail, whether through misfortune or poor planning, it does not enjoy the support and preferential treatment of its trading partners within the Soviet-bloc. It suffers doubly for its independent action.

In addition, because of its conservative attitudes, the Romanian government has been far more reluctant than some of the other bloc countries to incorporate structural changes necessary to correct economic deficiencies. It chooses instead to ignore these underlying causes of its problems and calls for more sacrifices from the population. Consequently Romanians have little incentive to support the "reforms" that are introduced--not like the Hungarians who get tangible benefits from their reform measures--and the economy stagnates.

There appears to be little that the United States or any of its allies can do to influence Romania's internal economic situation at this time. Because Romanian economic growth depends, to a large extent, on foreign trade, its economic difficulties can be resolved only if the improving world economy once again begins to absorb Romanian exports. In order for that to happen, in addition to improvement in the world market, Romania will have to produce better quality products. At the present time, many of its products, even if there were a market for them, would not be competitive.

Whatever happens within the Romanian economy in the near- or long-term, the United States and other Western countries should continue to trade with Romania. Until the end of the last decade, with the combined effects of the oil crisis and the worldwide recession, Western trade with Romania was considered lucrative. This was evident in the rising percentage of both imports from and exports to Romania from the developed countries throughout the 1970's. Investment in joint business ventures also markedly increased during this period.

Until the Polish debt crisis of 1980-81, Romania's ability and willingness to repay its loans to Western creditors was never in question. It was only because of shallow comparisons between Poland and Romania that Western governments and banks perceived an increased financial risk in Romanian trade. These perceptions could become self-fulfilling prophecies as Western reluctance to trade with Romania severely

limits its ability to obtain the hard currency with which to repay its debts. The potential financial losses to the West if Romania reneges on its loan repayment are substantial; but political implications of Western actions (or inaction) could far outweigh them.

First, the West would lose opportunities to influence Romanian behavior. It is unrealistic to believe Romania could break away from the Eastern European bloc or radically modify its economic structure and procedures. The geopolitical situation dictates that it remain in the Soviet sphere and a Communist-dominated socialist state for the foreseeable future. Nevertheless, Western actions can force changes in some Romanian domestic policies. For example, the 1983 U.S. threat not to renew Romania's most favored nation trade status caused the Romanian government to abolish its education tax for emigration. In addition, it has been argued that Romanian trade with the West permits or at least increases the scope of its maverick foreign policies.

Second, although its value is difficult to assess, there is little doubt that Soviet propaganda would exploit a Western financial loss because of Romanian economic setbacks. In a no-win situation, Western countries could be portrayed as either easily duped by socialist nations or as exploitative adventurers not to be trusted in economic situations. The latter portrayal could have adverse effects in Western dealings with the Third World.

Third, and most important, lack of Western action to support Romania economically will drive it, however reluctantly, closer to the Soviet Union. Romania's energy problems might lead to popular dissent that could provoke a Soviet military intervention. Inability to obtain relatively inexpensive fuel supplies elsewhere may cause the Romanian government to conclude new deals with the Soviet Union. The "price" of such deals could include increased Romanian participation in Warsaw Pact exercises and stationing of Soviet or Pact forces in Romania. This would increase the military threat to NATO.

Trade with Romania should not be contingent on risks associated with any other country in the region. It is a mistake to categorize all Eastern European countries as a single entity and treat them all alike. It is an insult to the national pride of each country, because each has a unique heritage and history. More significantly, it deprives the West of potentially important points of contact within the Eastern European Communist bloc--contacts that could serve as useful levers for influencing actions in the Communist world. The fact that trade with the West makes the economies of Romania and other Soviet-bloc countries stronger benefits them; but, to the extent that this strength allows them to act somewhat independently of the Soviet Union, the West benefits too.

APPENDIX A: TERMINOLOGY OF SOCIALISM

In order to understand the basic model of socialism, it is essential to have an appreciation for or familiarity with the definitions of socialist economic terms. Jozef Wilczynski, an Associate Professor of Economics at the University of New South Wales, is well-known for his book An Encyclopedic Dictionary of Marxism, Socialism, and Communism. Educated in Poland to be an economist, Mr. Wilczynski is uniquely qualified to present the Marxist-Leninist perspective on economic terms, which differs significantly from that of the market economies. The following definitions, excerpted from his most recent book, The Economics of Socialism, are thirty terms used most often in evaluating socialist economies:

Alienation -- estrangement of workers from capitalist employers because, although selling their own labour, they have no control over its use and over the goods and services they produce. May also appear under Socialism in the case of highly centralized economic planning and administration and a weak or arbitrary system of material incentives. It leads to the indifference or even hostility of workers to enterprises and of the local management and administration to higher authorities.

Autarky -- the policy designed to promote self-sufficiency. This policy was pursued by Socialist countries up to about the mid-1950's, but since then it has been largely discarded in favour of the international division of labour.

Bourgeois -- pertaining to capitalist societies dominated by the bourgeoisie (the social class

which owns most of the means of production and hires and exploits the proletariat.

Capital charge -- a continuous levy imposed on socialized (mostly industrial) enterprises in the form of interest rate, 5-6 p.a., payable to the state budget. Its purpose is to discourage excessive possession of capital and its underutilization.

CMEA, or CEMA, CEA, Comecon -- the Council for Mutual Economic Assistance, established in 1949, with its headquarters in Moscow. Its original members are: Albania, Bulgaria, Czechoslovakia, the German D.R., Hungary, Poland, Romania, and the USSR. Albania's membership has lapsed since 1961, whilst Mongolia was admitted in 1962, Cuba in 1972 and Vietnam in 1978. In addition, kinds of associate membership were accorded to Yugoslavia in 1966, Finland in 1973, Iraq and Mexico in 1975 and Angola in 1976. (Guyana and Jamaica indicated in 1977 and Ethiopia and Mozambique in 1980 that they would also join.) The function of CMEA is to promote economic co-operation and integration among the member nations.

Constant capital -- in the Marxian theory of value ($c + v + s$), that part of capital in the process of production which assumes the form of materialized labour, viz. buildings, machinery, equipment, tools, raw materials, fuel and power and semi-finished components. Marx called it constant (c in the formula) because its value does not change in the process of production but is merely 'transferred' to the output produced (in contrast to variable capital, which is capable of creating new value).

Consumer's free choice -- when consumers have freedom of choice to purchase what is produced for the consumer market. It implies that the planning authority determines the size and basic structure of production for current consumption, but there is no rationing. Market equilibrium is ensured by the authorities manipulating retail prices (i.e. in practice adjusting turnover taxes) so that consumption is adapted to production.

Consumers sovereignty -- the condition under which the consumers' preferences, expressing themselves through spending, ultimately determine

the size and structure of production. Absolute c.s. can exist only in market economies. A Socialist economy can ensure only rationalized c.s. (i.e. that which is in the interest of society), curtailment of anti-social consumption and a generous provision of social consumption.

Democratic centralism -- the principle (first put forth by Lenin) of participation and control by the masses in centralized planning and administration.

Extensive growth -- economic growth achieved due to increases in the amount of the factors of production employed (elimination of unemployment, growth in the labour force and an increase in capital investment). It is typical of Socialist countries in the early stages of economic development (roughly up to the mid-1960's in Eastern Europe).

Horizontal planning -- the system of economic planning under which the central plan is based on contracts between enterprises enjoying substantial independence. Such contracts, once coordinated and approved by higher authorities, then become binding targets, the execution of which is protected by a system of differentiated penalties.

Intensive growth -- economic growth attained mainly through increasing labour productivity consequent upon greater specialization, application of technology and more effective incentives.

Khoraschet -- a Russian term meaning 'cost accounting' or 'economic accountability'. Enterprises under this system operate independently of the State budget for financial resources.

Kolkhoz -- a Russian term for 'collective farm', where land is collectively owned and farmed by the members.

Matrix of inter-branch balances -- a table consisting of horizontal rows and vertical columns of figures showing flows of inputs and outputs of recipients and producing branches of the economy in a systematized pattern. It is designed to ensure the internal consistency of the national economic plan.

Means of production -- material factors of production, i.e. land and capital (including raw materials) but excluding labour (and entrepreneurship).

National income -- or 'Net material product' is the net (of depreciation) total amount of goods and productive services produced in a year expressed at realized prices (not at 'factor cost'). The national income figure calculated by the Socialist method is about one-fifth smaller than if calculated by the Western method.

Norm -- a rule specifying the amount of working time indispensable under normal conditions to produce one unit of an article (alternatively, it can be expressed as the number of units output to be produced in a specified period of time).

Objectively determined variations -- a concept used by L. V. Kantorovich to describe rational prices arrived at computationally which are conducive to the fulfillment of the optimal economic plan. O.d.v. reflect the scarcity of resources (land and capital, in addition to labour), and thus they are indicative of opportunity costs on a macrosocial scale. Their proposed function is to guide the allocation of resources at the central planning level for programming purposes.

Prime cost -- production cost borne by the enterprise. It includes wages, materials used, interest and depreciation of fixed capital. It does not include the cost of capital supplied to the enterprise by the State free of charge or capital charge.

Procurement price -- prices paid by the State to collective and private farms on delivery of farm products to the State. They are usually differentiated according to a variety of considerations.

Social product -- in Socialist national income accounting, the value of the total output of all productive enterprises (i.e. 'unproductive services' are excluded) in a year. As it includes final as well as intermediate goods and productive services, its total is inflated by double counting.

Socialization -- expropriation of privately owned enterprises, farms, agencies, etc., as a rule without compensation.

Socialized sector -- that which is owned and operated by society. It consists of State and collectively (or cooperatively) owned enterprises, farms, agencies, etc. The remaining sector is 'private' (or 'individual').

Socially necessary labour -- the minimum amount of work performed by efficient labour under the normal technological conditions prevailing in the economy to produce a particular commodity or service. It is the determinant of value.

Subbotnik -- a Russian term for 'Saturday work'. Work done without pay on a voluntary basis on days off or after working hours, usually on Saturdays.

Technical coefficient of production -- a fractional figure indicating the input-output relation applicable to a particular industry or product. It is calculated by dividing the outlay of input per unit of output expressed in physical terms and it can be derived from the matrix of inter-branch balances.

Value -- the amount of socially necessary labour embodied in a particular product. The price of the product, or its actual value-in-exchange, may depart from its value according to the conditions of supply and demand in the market.

Variable capital -- in the Marxian theory of value ($c + v + s$), that part of total capital in the process of production which is spent on wages. In the formula, it is represented by v , and it is the only element contributing to the creation of new value.

Vertical planning -- a system of 'command' planning in which there is little participation from below. Instead targets and even methods of their implementation are imposed by directives from above. It is associated with highly centralized systems of economic administration and management and was typical of Socialist countries up to about the early 1960's.

These definitions are a small sample of the terminology used in discussing socialist economic systems. For a more extensive sampling of terms, see Wilczynski, J(ozef), The Economics of Socialism, (Boston: George Allen and Unwin, 1982), pp. xi-xvii.

APPENDIX B: ROMANIAN ECONOMIC TABLES

When Romania joined the World Bank in December 1972, very little information on the structure, organization, and workings of the Romanian economy was known to Western economists. As is typical of the Communist bloc nations, specific details and statistical information on the Romanian economy had been considered national, and therefore closely guarded, secrets.

Since one of the functions of the World Bank is the lending of money for development in member nations and the support of economic ventures, it is imperative that the World Bank understands the inner workings of member nation economies and has a data base of comparable statistics on each country. In order to construct such a data base on Romania, the World Bank sent an economic mission to Romania in 1976 to study its economy and to collect statistical information.

The result of this effort is a descriptive and analytical work entitled Romania: The Industrialization of an Agrarian Economy under Socialist Planning (Washington, D.C.: The World Bank, 1979), by coordinating authors and members of the mission Andreas C. Tsantis and Roy Pepper. Three tables from this document--Volume of Foreign Trade, Imports by Country of Origin, and Exports by Country of Destination--illustrate the changes in Romanian foreign trade through 1976 and highlight the dramatic growth and shift in emphasis during the 1970's.

These tables are provided in their entirety, with each of the following trade categories shown separately: CMEA partners, other socialist countries, developed market economies, and developing countries. Similarly formatted displays of import and export statistics since 1976 follow each trade category table. Updates on overall foreign trade volume are appended to the original statistics.

Data on Romanian trade activity since 1976 are not as complete as those cited in the World Bank tables; no official update of the Romanian economic study has yet been performed. However, available statistics illustrate continuing growth in both overall trade and extra-Soviet bloc interactions through 1981 in most instances. Available data for 1982 demonstrate the precipitous drop in Romanian trade that occurred worldwide. There were two notable exceptions to these trends. In 1981, Canada drastically reduced its trade with Romania when it cut support to Romania's nuclear power program, and Italy increased its volume of imports from Romania in 1982.

Sources for these data are Directorate of Intelligence, Handbook of Economic Statistics, 1983, (Washington, D.C.: Central Intelligence Agency, September, 1983), The Europa Year Book 1982: A World Survey, Volume I, (London: Europa Publications Limited, 1982), and Bureau of Intelligence and Research, Trade of NATO Countries with European CEMA Countries, 1979-1982, (Washington, D.C.: Department of State, November 28, 1983). None of these sources provides 1977

trade data, but some statistics from 1978 through 1982 are cited.

Some statistics from 1980, final year of the sixth Romanian Five-Year Plan and the last to show across-the-board increases, are noteworthy. Romania's single largest trading partner was still the Soviet Union, with 17.4 percent of total trade; the other Eastern European countries accounted for 16.7 percent; the total for all socialist countries was 41.6 percent. Romanian trade with developed market economies rose to 33.7 percent of total volume; Germany ranked first in this group at 7.5 percent, and the United States was second at 5.8 percent. Developing countries accounted for 25.6 percent of Romanian trade, with Iran the largest at 3.9 percent.

Because Romania's currency, the leu (plural, lei), is not convertible, direct statistical comparisons with Western currencies are meaningless. To overcome this difficulty, an economic device called the leu valuta is used for comparison purposes. The leu valuta is the "foreign exchange leu," used to express the formal gold price of the leu at any specific point in time.

The official conversion rate for the leu valuta, 4.47 lei per dollar (US), is not used for transactions of any type. It applies only to official Romanian statistics on foreign trade and has remained constant since 1978. All trade statistics in the following tables are derived from official Romanian figures; therefore, this rate applies.

VOLUME OF FOREIGN TRADE (millions of lei valuta) (1950-1965)

Year	Total Trade	Exports	Imports	Trade Balance	% Average Total	Annual Exp.	Growth Imp.
1950	2,734.5	1,274.2	1,460.3	-186.1			
1951	3,215.5	1,579.7	1,635.8	-56.1			
1952	4,009.3	1,826.3	2,183.0	-356.7			
1953	4,973.4	2,196.2	2,777.2	-581.0	14.2	14.7	13.7
1954	4,543.7	2,216.0	2,327.8	-111.7			
1955	5,301.4	2,530.2	2,771.2	-241.0			
1956	5,075.3	2,660.7	2,414.6	+246.1			
1957	5,416.4	2,465.7	2,950.7	-485.0			
1958	5,700.2	2,810.0	2,890.2	-80.2	9.1	11.2	7.0
1959	6,416.4	3,134.6	3,011.8	+122.8			
1960	8,189.3	4,302.2	3,887.1	-415.1			
1961	8,642.9	4,754.8	4,888.1	-133.3			
1962	10,554.4	4,907.7	5,646.7	-739.0			
1963	11,622.2	5,490.2	6,132.0	-641.8	9.8	9.0	10.7
1964	13,099.2	6,000.4	7,008.8	-1,008.4			
1965	13,071.9	6,609.2	6,462.7	+146.5			

VOLUME OF FOREIGN TRADE (Millions of lei valuta (1966-1982)

<u>Year</u>	<u>Total Trade</u>	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>	<u>% Average Total</u>	<u>Annual Growth Exp.</u>	<u>Imp.</u>
1966	14,396.2	7,116.9	7,279.3	-162.4			
1967	17,648.6	8,372.1	9,276.5	-904.4			
1968	18,465.2	8,811.4	9,653.8	-842.4	11.8	10.9	12.7
1969	20,241.6	9,798.7	10,442.9	-644.2			
1970	22,865.7	11,104.9	11,760.8	-655.9			
1971	25,222.1	12,606.0	12,616.1	-10.1			
1972	28,838.2	14,373.0	14,465.2	-92.2			
1973	35,993.6	18,575.9	17,417.7	+1,158.2	18.4	19.0	17.7
1974	49,789.2	24,225.8	25,563.4	-1,337.6			
1975	53,095.4	26,546.9	26,548.5	-1.6			
1976	60,798.4	30,504.5	30,293.9	+210.6			
1978	79,440.2	36,821.3	40,618.9	-3,797.6			
1979	93,393.0	44,472.0	49,921.0	-5,449.0			
1980	110,985.6	52,710.2	58,275.4	-5,565.2	5.3	9.5	3.3
1981	112,054.0	56,371.2	55,682.8	+688.4			
1982	95,228.9	51,668.7	43,560.2	+8,108.5			

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

Country	1960	1965	1970	1971	1972	1973	1974	1975	1976
Albania	4.4	15.1	20.6	30.4	38.4	40.9	52.9	38.5	58.1
Bulgaria	51.7	78.4	257.3	237.7	310.3	341.3	509.8	543.1	653.9
Cuba	---	0.1	77.8	88.5	51.4	92.5	206.0	42.9	74.5
Czechoslovakia	383.1	417.5	951.3	896.0	963.5	986.9	1046.9	1284.6	1316.2
East Germany	311.1	375.0	690.5	919.6	1043.8	1125.4	1340.4	1569.4	2174.2
Hungary	154.6	168.6	286.6	408.8	407.2	461.8	628.4	730.8	981.9
Poland	138.5	222.4	460.8	431.0	521.1	567.1	845.6	1060.3	1574.6
USSR	1595.6	2436.9	3004.8	2907.9	3203.3	3448.6	3756.8	4578.6	5305.1
* CMEA	2640.4	3718.5	5758.8	5931.5	6566.3	7082.8	8401.1	9864.8	12161.6
China	141.6	131.2	372.1	536.4	529.9	675.5	904.4	1070.4	1003.6
Korea	17.7	21.0	36.1	64.1	62.2	79.5	94.4	74.6	39.2
Vietnam	12.9	12.5	0.8	2.1	1.5	0.4	5.3	14.9	16.8
Yugoslavia	29.1	74.5	175.2	256.7	309.6	405.6	596.5	533.8	545.9
* Other Socialist	201.3	239.2	584.2	859.3	903.2	1161.0	1600.6	1693.7	1605.5

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Albania	---	---	---	---	---
Bulgaria	922.8	988.6	1084.1	---	---
Cuba	---	---	---	---	---
Czechoslovakia	1964.5	2128.1	1929.3	---	---
East Germany	2825.2	3112.3	2634.1	---	---
Hungary	1205.0	1516.5	1561.4	---	---
Poland	1509.0	1111.3	1682.8	---	---
USSR	6520.8	7164.4	9222.2	11058.8	8886.4
* CMEA	15368.4	16887.7	18408.0	19828.9	18215.3
China	1893.5	2233.5	2796.6	---	---
Korea	---	---	---	---	---
Vietnam	---	---	---	---	---
Yugoslavia	631.1	767.6	926.5	---	---
* Other Socialist	2811.1	3428.5	4491.8	4273.4	4291.2

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

<u>Country</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Austria	59.2	143.2	356.7	364.6	373.0	452.3	645.2	849.9	940.2
Belgium	15.0	31.4	182.5	165.7	135.3	204.9	343.1	307.1	468.9
Canada	7.5	2.1	13.0	47.8	32.0	45.0	33.8	15.1	156.1
France	149.0	295.3	673.6	806.9	783.7	838.0	838.9	941.3	1266.0
Germany	276.6	662.8	958.0	886.7	1363.4	2096.3	3921.4	2846.8	2020.6
Italy	98.1	311.6	577.3	641.8	738.0	727.9	869.8	1149.8	954.8
Japan	---	106.0	160.6	214.8	248.0	390.1	745.5	835.4	680.7
Netherlands	23.6	56.5	190.7	188.3	155.4	306.6	657.0	424.4	485.6
Sweden	28.5	44.8	139.4	138.2	151.0	196.7	278.6	268.9	246.3
Switzerland	51.4	72.4	254.3	243.2	420.9	385.2	957.9	1356.3	828.8
United Kingdom	106.4	263.4	592.9	689.9	788.6	634.9	1441.9	879.2	823.3
United States	37.8	54.8	358.6	377.5	413.4	754.6	1191.1	688.6	1375.4
* Developed Market Economies	885.4	2087.7	4534.0	4880.6	5767.7	7212.1	12108.5	10762.3	10516.1

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Austria	1159.8	1286.3	1197.0	---	---
Belgium	363.7	597.1	810.9	485.9	217.7
Canada	411.8	2011.7	1334.3	35.3	16.5
France	1479.5	1773.7	1473.3	1845.2	691.9
Germany	3299.8	4322.1	3782.3	3881.7	1684.3
Italy	1137.0	1364.0	1232.2	944.1	584.7
Japan	1207.9	907.4	946.1	---	---
Netherlands	705.2	662.6	868.5	422.9	231.5
Sweden	467.7	512.8	586.4	---	---
Switzerland	1138.6	588.5	488.8	---	---
United Kingdom	947.8	865.4	1121.1	1362.5	901.2
United States	2161.9	2930.3	4365.4	2253.8	1000.4
* Developed Market Economies	15640.5	17821.9	18206.3	15756.7	8640.5

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

<u>Country</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Algeria	---	5.2	26.4	59.0	126.3	73.0	302.5	299.8	8.4
Argentina	9.7	6.7	54.9	37.1	61.0	17.1	6.3	2.5	110.3
Brazil	7.3	30.5	31.1	36.2	14.7	53.0	72.1	162.2	245.3
Egypt	49.3	104.5	112.3	90.8	143.3	111.6	208.5	359.4	140.5
Greece	12.2	21.6	40.3	51.9	146.1	111.6	131.5	213.4	226.9
India	20.4	52.9	91.7	113.5	101.1	115.6	102.6	178.9	291.9
Iran	---	3.4	148.6	186.1	189.0	290.8	676.6	890.9	1506.1
Iraq	0.2	0.9	---	---	0.7	39.6	168.6	34.8	855.6
Israel	9.9	11.4	59.9	62.2	47.5	67.0	136.3	142.7	68.3
Jordan	---	---	0.4	0.7	---	---	---	31.9	51.6
Lebanon	2.4	5.4	9.2	9.0	35.6	16.8	476.5	78.6	40.4
Libya	---	---	---	13.0	83.2	167.9	151.1	351.3	707.6
Portugal	3.7	10.3	11.1	10.9	12.9	11.7	23.7	30.3	40.5
Spain	4.1	28.3	52.1	40.9	68.5	92.2	149.7	181.8	127.4
Syria	5.0	58.3	5.8	7.0	9.7	26.1	73.3	96.6	37.2
Turkey	7.4	16.8	18.2	27.6	48.9	49.8	22.1	35.0	141.8
* Developing Countries	160.0	417.3	883.8	944.7	1228.9	1961.8	3453.2	4227.7	6010.7

IMPORTS BY COUNTRY OF ORIGIN (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Algeria	---	---	---	---	---
Argentina	---	---	---	---	---
Brazil	---	---	---	---	---
Egypt	120.7	285.4	963.5	---	---
Greece	657.0	274.5	392.4	341.4	299.5
India	174.2	230.6	307.7	---	---
Iran	1083.1	1616.7	3086.9	---	---
Iraq	---	---	---	---	---
Israel	---	---	---	---	---
Jordan	---	---	---	---	---
Lebanon	---	---	---	---	---
Libya	1148.8	1315.0	1860.1	---	---
Portugal	---	89.4	59.4	54.5	52.3
Spain	184.9	396.5	310.1	279.4	147.1
Syria	---	---	---	---	---
Turkey	---	1158.6	1031.7	1646.3	464.0
* Developing Countries	6798.9	11782.9	17169.3	15823.8	12413.2

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

<u>Country</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Albania	11.7	18.5	18.7	26.9	30.6	39.6	55.1	42.7	46.8
Bulgaria	55.1	55.3	140.5	164.0	290.2	369.6	446.2	480.0	435.5
Cuba	---	14.5	87.9	62.8	34.8	44.4	62.8	84.4	86.1
Czechoslovakia	375.8	571.5	790.9	734.8	825.2	1091.0	1183.8	1162.1	1368.8
East Germany	323.4	430.4	634.8	781.1	955.7	1321.6	1510.4	1339.6	2079.4
Hungary	252.1	230.7	377.8	430.0	357.2	519.5	498.9	872.7	994.5
Poland	125.2	269.7	425.3	497.4	501.6	930.7	982.3	1012.3	1156.0
USSR	1688.6	2630.6	3172.9	3398.9	3868.7	4120.4	4085.5	5278.9	5558.6
* CEMA	2833.2	4226.4	5669.6	6111.1	6877.2	8456.9	8849.9	10289.9	11743.4
China	200.0	159.8	431.2	595.8	674.2	640.1	833.8	1094.0	1236.8
Korea	31.9	30.4	47.7	59.8	79.9	87.6	142.9	110.5	124.0
Vietnam	47.4	98.6	246.1	369.4	353.2	388.6	641.9	676.0	856.8
Yugoslavia	26.8	20.1	58.0	21.1	36.9	35.9	32.2	42.9	31.3
* Other Socialist	306.1	308.9	783.0	1046.0	1144.2	1152.2	1650.8	1923.4	2248.9

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Albania	---	---	---	---	---
Bulgaria	689.5	735.2	967.0	---	---
Cuba	---	---	---	---	---
Czechoslovakia	2062.4	1944.5	1851.0	---	---
East Germany	2731.6	2544.8	3012.4	---	---
Hungary	1278.3	1542.3	1474.5	---	---
Poland	1833.4	1439.2	1790.1	---	---
USSR	6469.1	7365.4	10063.6	10401.7	10509.0
* CMEA	15483.3	15940.0	19793.2	18585.2	19592.0
China	1707.1	2487.1	2564.0	---	---
Korea	---	---	---	---	---
Vietnam	---	---	---	---	---
Yugoslavia	932.9	820.2	788.0	---	---
* Other Socialist	3037.8	3848.7	3521.0	5239.9	4206.2

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

<u>Country</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Austria	94.2	145.8	329.4	297.6	284.2	449.8	732.9	597.9	685.6
Belgium	12.8	27.4	97.3	107.3	101.9	150.6	247.9	234.3	271.0
Canada	0.5	1.7	26.9	51.1	65.6	114.2	121.8	102.5	143.9
France	116.9	131.2	364.0	503.9	528.6	610.7	804.3	747.9	890.9
Germany	262.6	379.4	999.7	1239.5	1351.8	1722.0	2349.8	2192.3	2623.9
Italy	153.7	395.7	656.3	730.3	922.9	1010.7	1287.6	1123.6	1001.6
Japan	---	83.5	33.3	53.6	95.1	123.6	279.1	253.7	224.7
Netherlands	19.3	40.4	130.5	181.9	223.8	410.9	750.7	594.6	781.2
Sweden	14.3	37.7	48.9	58.7	92.6	159.4	225.0	320.7	369.0
Switzerland	66.7	56.6	149.7	207.1	200.1	279.9	874.5	712.2	510.7
United Kingdom	89.5	183.2	306.9	304.9	367.4	479.9	1203.6	624.2	745.3
United States	3.8	15.8	80.5	155.2	191.0	320.8	367.4	485.5	944.1
* Developed Market Economies	873.1	1531.6	3284.5	3992.6	4549.0	5980.2	9455.4	8225.0	9406.5

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Austria	690.2	741.6	739.5	---	---
Belgium	291.5	366.7	399.1	262.8	114.4
Canada	1098.3	2035.9	2501.5	174.8	110.4
France	941.9	1314.8	1608.3	2349.4	1721.8
Germany	2931.6	4020.0	4516.5	2960.9	2510.3
Italy	1208.3	1776.3	2967.9	1904.2	2387.0
Japan	322.8	455.6	502.2	---	---
Netherlands	819.0	1403.3	1589.7	1062.5	440.9
Sweden	270.6	288.0	381.5	---	---
Switzerland	613.7	558.1	1049.4	---	---
United Kingdom	890.7	977.0	842.3	423.8	402.3
United States	1726.7	2118.9	2087.3	2503.6	1554.7
* Developed Market Economies	11805.3	16056.2	19185.2	16910.0	15233.8

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

Country	1960	1965	1970	1971	1972	1973	1974	1975	1976
Algeria	---	1.0	51.8	35.3	63.1	89.7	113.0	178.6	205.8
Argentina	12.9	6.7	1.1	10.1	12.8	3.7	36.7	170.5	50.5
Brazil	17.5	27.2	34.9	20.4	15.8	18.6	40.7	105.3	392.5
Egypt	53.5	101.8	138.4	116.5	172.3	163.5	540.8	367.2	346.5
Greece	23.7	49.1	172.0	165.6	159.8	336.3	281.1	416.9	681.0
India	69.3	40.5	96.1	85.6	101.7	131.2	231.9	331.9	215.1
Iran	0.7	3.7	200.6	160.7	164.8	246.0	368.8	811.2	928.1
Iraq	8.0	16.8	3.3	5.6	37.8	33.7	272.6	325.1	156.5
Israel	3.1	9.7	138.1	116.7	156.2	177.3	231.8	155.6	147.6
Jordan	5.4	7.6	13.4	17.3	16.9	23.8	41.9	95.3	207.6
Lebanon	---	---	---	---	---	---	---	---	---
Libya	0.3	19.0	87.2	83.6	96.0	221.1	381.1	582.0	565.8
Portugal	10.7	13.9	5.1	30.5	10.1	39.2	61.9	68.2	175.9
Spain	2.3	37.9	58.9	63.6	115.4	234.7	254.3	354.0	170.0
Syria	10.7	46.2	18.1	17.0	18.4	41.9	96.0	305.9	776.9
Turkey	7.5	18.6	55.2	22.2	15.8	40.2	129.2	227.5	519.7
* Developing Countries	289.9	542.3	1367.8	1456.2	1802.6	2986.6	4270.6	6108.6	7105.7

EXPORTS BY COUNTRY OF DESTINATION (Millions of lei valuta)

<u>Country</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Algeria	---	---	---	---	---
Argentina	---	---	---	---	---
Brazil	---	---	---	---	---
Egypt	593.0	984.6	1251.3	---	---
Greece	613.7	801.2	1557.8	219.5	232.9
India	252.7	298.8	774.0	---	---
Iran	818.6	578.7	1305.2	---	---
Iraq	---	---	---	---	---
Israel	---	---	---	---	---
Jordan	---	---	---	---	---
Lebanon	560.7	699.3	907.3	---	---
Libya	707.5	509.7	510.0	---	---
Portugal	---	48.3	31.3	29.9	26.8
Spain	210.0	380.1	112.9	632.1	506.5
Syria	---	---	---	---	---
Turkey	---	170.8	300.8	264.2	247.2
* Developing Countries	6494.9	8627.1	10210.8	15636.1	12636.7

APPENDIX C: ECONOMIC PLATES ON ROMANIA

Plate 1

Distribution of Arable Land and Timber Land



-  = Arable Land, Food Industry Area
-  = Timber Land, Forestry Area

Plate 2

Natural Resources








-  = Oil
-  = Natural Gas
-  = Coal (Pitcoal, Lignite, Anthracite, and Bituminous)

Plate 3

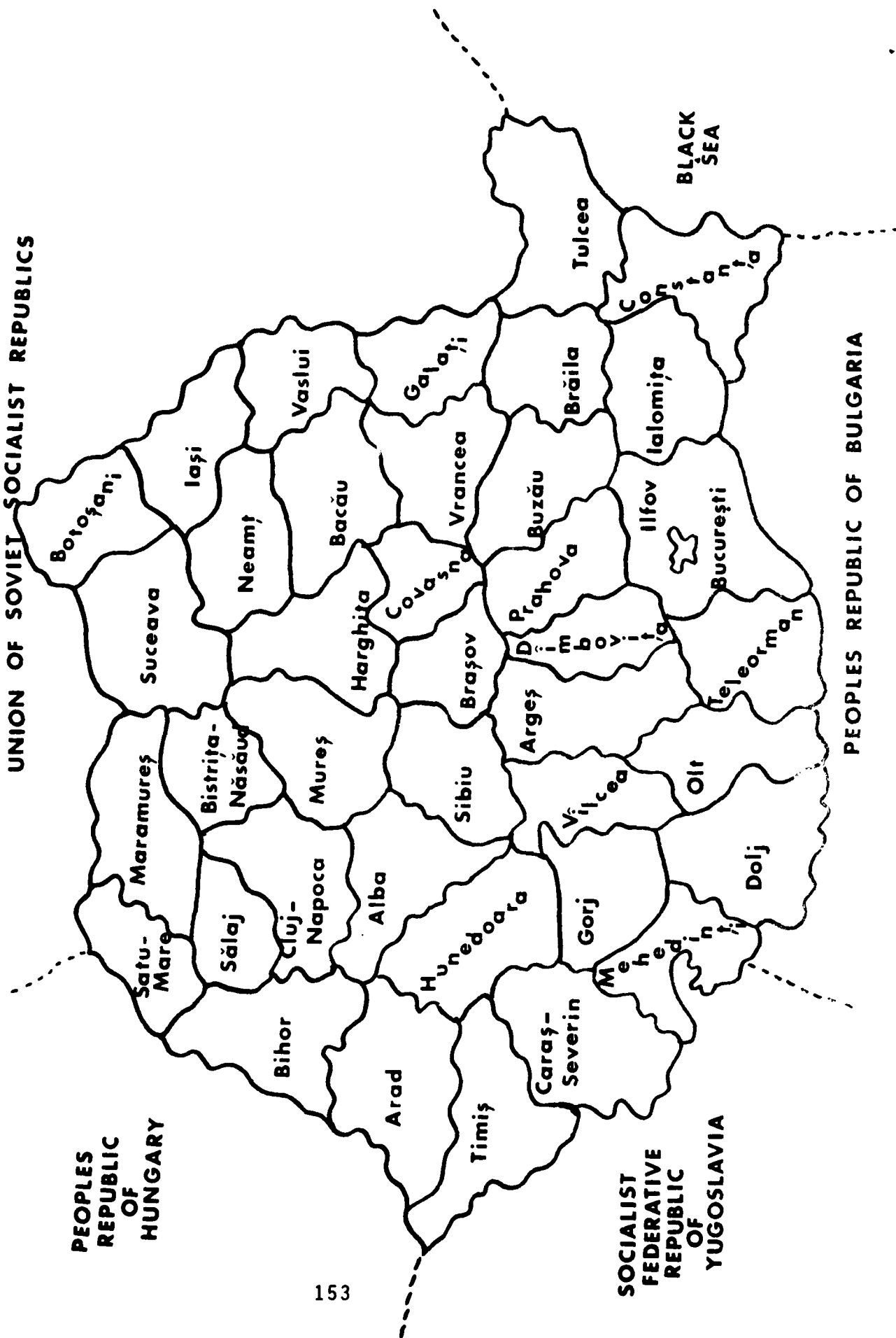
Distribution of Industry

-  = Heavy Industry (i.e., Machine Building)
-  = Light Industry (i.e., Textiles)
-  = Electric Power (Thermo- or Hydroelectric)
-  = Railways

Developed from map in Tismaneanu, Leonte and Rolica Zaharia. Present and Prospect in Romania's Social and Economic Development. Translated by Andrei Bantas. Bucharest: Meridiane Publishing House, 1977.



UNION OF SOVIET SOCIALIST REPUBLICS



APPENDIX D: THE HELSINKI AGREEMENT

A major factor in the dramatic increase in dissent and dissidence in Eastern Europe was the ratification and subsequent dissemination of the 1975 Conference on Security and Cooperation in Europe (CSCE) Final Act in Helsinki. Originally perceived as a diplomatic failure because it legitimized post-World War II borders in Europe, this document has become an important contribution to the cause of personal freedom in Eastern European countries.

Its explicit expression of humanitarian issues, specifically defined in "Basket III" provisions, enables numerous groups and individuals in the Communist bloc to protest openly and to challenge their governments successfully. Intellectuals, workers, and minorities in Eastern Europe have used this agreement to demand changes in emigration requirements, relaxation of restrictions on foreign contacts, and religious freedoms.

An article by Dante B. Fascell, chairman of the CSCE, in Milton Meltzer's The Human Rights Book, (New York: Farrar, Straus, Giroux, 1979), examines the implications and ramifications of the Helsinki Final Act. The following text of "Basket III" appears as an appendix in the book:

PRINCIPLE VII (guiding relations between Participa-
ting States): Respect for Human Rights and Funda-
mental Freedoms, Including the Freedom of Thought,
Conscience, Religion, or Belief

The Participating States will respect human rights and fundamental freedoms, including the freedom of thought, conscience, religion or belief, for all without distinction as to race, sex, language or religion.

They will promote and encourage the effective exercise of civil, political, economic, social, cultural and other rights and freedoms all of which derive from the inherent dignity of the human person and are essential for his free and full development.

Within this framework, the participating States will recognize and respect the freedom of the individual to profess and practise, alone or in community with others, religion or belief acting in accordance with the dictates of his own conscience.

The participating States on whose territory national minorities exist will respect the right of persons belonging to such minorities to equality before the law, will afford them the full opportunity for the actual enjoyment of human rights and fundamental freedoms and will, in this manner, protect their legitimate interests in this sphere.

The participating States recognize the universal significance of human rights and fundamental freedoms, respect for which is an essential factor for the peace, justice and well-being necessary to ensure the development of friendly relations and co-operation among themselves as among all States.

They will constantly respect these rights and freedoms in their mutual relations and will endeavor jointly and separately, including in co-operation with the United Nations, to promote universal and effective respect for them.

They confirm the right of the individual to know and act upon his rights and duties in this field.

In the field of human rights and fundamental freedoms, the participating States will act in conformity with the purposes and principles of the Charter of the United Nations and with the Universal Declaration of Human Rights. They will also fulfill their obligations as set forth in the international declarations and agreements in this field, including inter alia the International Covenants on Human Rights, by which they may be bound.

Co-operation in Humanitarian and Other Fields

The participating States:

Desiring to contribute to the strengthening of peace and understanding among peoples and to the spiritual enrichment of the human personality without distinction as to race, sex, language or religion,

Conscious that increased cultural and educational exchanges, broader dissemination of information, contacts between people, and the solution of humanitarian problems will contribute to the attainment of these aims,

Determined therefore to co-operate among themselves, irrespective of their political, economic and social systems, in order to create better conditions in the above fields, to develop and strengthen existing forms of co-operation and to work out new ways and means appropriate to these aims,

Convinced that this co-operation should take place in full respect for the principles guiding relations among participating States as set forth in the relevant document,

Have adopted the following:

1. HUMAN CONTACTS

The participating States:

Considering the development of contacts to be an important element in the strengthening of friendly relations and trust among peoples,

Affirming, in relation to their present effort to improve conditions in this area, the importance they attach to humanitarian considerations,

Desiring in this spirit to develop, with the continuance of detente, further efforts to achieve continuing progress in this field,

And conscious that the question relevant hereto must be settled by the States concerned under mutually acceptable conditions,

Make it their aim to facilitate freer movement and contacts, individually and collectively, whether privately or officially, among persons, institutions and organizations of the participating States, and to contribute to the solution of the humanitarian problems that arise in that connexion,

Declare their readiness to these ends to take measures which they consider appropriate and to conclude agreements or arrangements among themselves, as may be needed, and

Express their intentions now to proceed to the implementation of the following:

(a) Contacts and Regular Meetings on the Basis of Family Ties

In order to promote further development of contacts on the basis of family ties the participating States will favourably consider applications for travel with the purpose of allowing persons to enter or leave their territory temporarily, and on a regular basis if desired, in order to visit members of their families.

Applications for temporary visits to meet members of their families will be dealt with without distinction as to the country of origin or destination: existing requirements for travel documents and visas will be applied in that spirit. The preparation and issue of such documents and visas will be effected within reasonable time limits; cases of urgent necessity--such as serious illness or death--will be given priority treatment. They will take such steps as may be necessary to ensure that the fees for official travel documents and visas are acceptable.

They confirm that the presentation of an application concerning contacts on the basis of family

ties will not modify the rights and obligations of the applicant or of members of his family.

(b) Reunification of Families

The participating States will deal in a positive and humanitarian spirit with the applications of persons who wish to be reunited with members of their family, with special attention being given to requests of an urgent character--such as requests submitted by persons who are ill or old.

They will deal with applications in this field as expeditiously as possible.

They will lower where necessary the fees charged in connexion with these applications to ensure that they are at a moderate level.

Applications for the purpose of family reunification which are not granted may be renewed at the appropriate level and will be reconsidered at reasonably short intervals by the authorities of the country of residence or destination, whichever is concerned; under such circumstances fees will be charged only when applications are granted.

Persons whose applications for family reunifications are granted may bring with them or ship their household goods and personal effects; to this end the participating States will use all possibilities provided by existing regulations.

Until members of the same family are reunited meetings and contacts between them may take place in accordance with the modalities for contacts on the basis of family ties.

The participating States will support the efforts of Red Cross and Red Crescent Societies concerned with the problems of family reunification.

They confirm that the presentation of an application concerning family reunification will not modify the rights and obligations of the applicant or of members of his family.

The receiving participating State will take appropriate care with regard to employment for persons from other participating States who take up permanent residence in the State in connexion with family

reunification with its citizens and see that they are afforded opportunities equal to those enjoyed by its own citizens for education, medical assistance and social security.

(c) Marriage between Citizens of Different States

The participating States will examine favourably and on the basis of humanitarian considerations requests for exit or entry permits from persons who have decided to marry a citizen from another participating State.

The processing and issuing of the documents required for the above purposes and for marriage will be in accordance with the provisions accepted for family reunification.

In dealing with requests from couples from different participating States, once married, to enable them and the minor children of their marriage to transfer their permanent residence to a State in which either one is normally a resident, the participating States will also apply the provisions accepted for family reunification.

(d) Travel for Personal or Professional Reasons

The participating States intend to facilitate wider travel by their citizens for personal or professional reasons and to this end they intend in particular:

- gradually to simplify and to administer flexibly the procedures for exit and entry;

- to ease regulations concerning movement of citizens from the other participating States in their territory, with due regard to security requirements.

They will endeavor gradually to lower, where necessary, the fees for visas and official travel documents.

They intend to consider, as necessary, means--including insofar as appropriate, the conclusion of multilateral or bilateral consular conventions or other relevant agreements or understandings--for the improvement of arrangements to provide consular services, including legal and consular assistance.

They confirm that religious faiths, institutions and organizations, practising within the constitutional framework of the participating States, and their representatives can, in the field of their activities, have contacts and meetings among themselves and exchange information.

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